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# ***JPRS Report***

# **China**

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# China

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## General

### People's Bank Issues Independent Economic Report

94CE0687A Beijing ZHONGHUA DISAN CHANYE  
BAO in Chinese 14 Jul 94 p 1

[Dispatch from Beijing by reporter Cai Changsheng]

[Text] Recently the People's Bank of China independently issued, for the first time, a report forecasting China's economic situation for 1994. The report indicates that this year China's economy will maintain a relatively higher growth rate; the second half of the year will see some decline in the price index, which is expected to be lower than last year's; and the unfavorable balance of international payments will improve, while that of the current account will probably be better than last year's, too. The report maintains that the development of this year's economic situation is closely tied to the following three factors:

1. The scope of investment in fixed assets. In light of the projected goal of 9 percent increase in gross national product, this year's total social investment in fixed assets should amount to 1.3 trillion yuan. Judging from the actual situation, the total scope of capital construction projects underway is too large; the replacement of old products partly accounts for this year's growth in fixed-assets investment; and this year will continue to see new uses of foreign capital, the influx of which also will contribute to the increase in fixed-assets investment. If this strong investment growth is left unchecked, China is likely to see its economy become overheated this year.

2. The price situation. Since the beginning of this year, prices have been continuing to rise above last year's high levels. In the first quarter, national commodity retail prices rose by more than 20 percent over the same period last year. The main reasons for all this are: 1) the prices of coal under the unified distribution system and chemical fertilizers have been or will soon be deregulated, while the prices of crude oil, natural gas, and electricity as well as the procurement prices for grain and cotton will soon be readjusted; 2) the wage outlay is growing too fast, income is rising, and social purchasing power is increasing; 3) the implementation of differential taxation and the dual-track exchange rate system is pushing up prices to some extent; and 4) the most important factor affecting prices is the scope of investment, and if the investment rash is not brought under control the inflationary pressure will continue to increase.

3. The balance of payments. Since the implementation of reform and opening to the outside world, China's economy has become increasingly tied to the world's economy, and the international dependency of its economic growth has continued to deepen. As the world's economy grows slowly, so does international trade. Given this, the increase in China's export trade for this

year will still outstrip last year's but not by much. On the other hand, demand for imports remains very strong, which can lead to a greater trade deficit. Excessive imports can destabilize China's economy and thus deteriorate its investment environment. Therefore, indirect regulation and control measures should be taken and domestic demand lowered to increase exports and decrease imports. The report suggests that a series of macroeconomic policies should be adopted to realize the macroeconomic adjustment goals of increasing gross domestic product by 9 percent and keeping inflation within 10 percent. The major measures are: rigorously control the scope of fixed-assets investment, the issuance of currency, and the total volume of credit and loans; continue to rectify the monetary order and to intensify the reform of the monetary system; implement austere financial policies and conscientiously enhance the collection and management of taxes; improve the modern enterprise system and carry out the reform of state-owned enterprises; and actively promote China's opening to the outside world, increase exports, and energetically bring in more foreign capital to achieve a basic balance of payments.

### Economists Approve Method To Transform State Enterprises

94CE0595B Chongqing XINAN JINGJI RIBAO  
in Chinese 20 Jun 94 p 3

[Article by Yu Zhu]

[Text] "Zhongxian" formula—a way to bring about a modern enterprise system—was recently put to a pilot test at Jinzhou Xinguang Lighting Parent Company. "Zhongxian," meaning Chinese modernization, was propounded as a modern enterprise system by Mr. Liu Enjia, president of Hong Kong Yunli Development Group, that is based on the market economy's general rules and takes into account China's conditions. Noted economists in China, such as Yu Guangyuan, Li Yining, and Xiao Zhuoji, highly appraised the system, claiming that the formula presents "a new way of thinking in the reform of state-owned enterprises." Under the pilot test of "Chinese Modernization" formula, the Heilongjiang Zhongxian Enterprise Consultation and Management Company of Hong Kong Yunli Development Group is taking charge of the operation of the Jinzhou Xinguang Lighting Company, bearing operational risks, and assuming management of its charge in all aspects and processes. Using the existing system of enterprise workers congress as a foundation and the company system as the basic organizational structure, the formula achieves the reform of state-owned enterprises by operating state enterprise in debt and clarifies property rights. The specifics of the formula are as follows: 1) Establish a new relationship of property rights. This is mainly embodied in "substituting investment with loans, and repaying principle and interest; turning loans into investment, and workers into shareholders." State investment in an enterprise is substituted with loans

taken out by the enterprise's entire staff; thereby the state shifts its role from the investor of the enterprise to the creditor of state property, and the entire staff becomes the debtor. The gross value of the repayment of the principle and interest through years then becomes the shares reinjected by the entire staff into the enterprise, making it the real owner of the property. This method of making the entire staff the owner of the legal person's property right by making them assume debts and responsibilities and commit their total labor, not only solves the problem of the staff's inability to buy out the enterprise in one single stroke but also solves the ambiguity over the ultimate ownership of state shares when the enterprise is reorganized into a joint-stock entity.

2. Establish a new labor relationship. This is mainly embodied in that the worker and the property owner become one, and the operator/manager and the engaged become one, with each keeping the other in check. Under the "Chinese modernization" formula, the entire staff becomes the debtor, owns the enterprise's property, and becomes its master in reality and in name. The shareholding workers congress is the supreme power organ in the enterprise; a new labor relationship emerges between the workers congress and the operator engaged by it where each is independent from the other and has clearly defined rights and responsibilities, after the separation of the property and operation rights.

3. Establish a new distribution relationship. The practice is: first distribute, then deduct, with the rest going to the workers; and maximize the profit. In the distribution of profit, it discards the traditional way of distribution based only on socially necessary labor time. Instead, based on the new relationship of property right and labor relationship, taking into account the realized value of individual inputs of labor and assets and the risks each runs, it first distributes the newly increased value, then deducts, with the rest going to workers. In addition, by applying modern management methods, such as value engineering and computer control systems, it makes the distribution relationship quantified, clear, standardized, and open.

4. Establish a new main body of operation and management. The main operational body at a pilot enterprise is assumed by an operation and management company specializing in operating and managing enterprises. Engaged by the pilot enterprise, the operation and management company is responsible for the operational targets set by the shareholding workers congress (or the board of directors) of the pilot enterprise, takes the investment as its risk, and assumes losses up to the amount of the registered capital.

#### **MOFTEC Seeks To Minimize Effects of Low Consumption Demand**

94CE0709B Beijing JINGJI RIBAO in Chinese  
3 Aug 94 p 1

[Article by Correspondent Xie Jing (6200 2417): "Limit Production, Draw Down Inventories, and Spur Sales To

Improve Economic Returns Is Call From Ministry of Foreign Trade and Economic Cooperation [MOFTEC"]

[Text] Xinhuashe, Jinan 3 August. MOFTEC convened a panel discussion at Yantai today about cutbacks in production, drawing down inventories, and spurring sales in east China, north China, and northeast China. The meeting called for further cutbacks in production, reduction of inventories, and spurring of sales throughout the country during the second half of the year.

MOFTEC Vice-chairman Shi Wanpeng [4258 8001 7720] said that the entire economy has functioned fairly well during the first half of the year, industrial production increasing 18.8 percentage points. However, inventories have increased because slight increase in market demand, both consumption demand and investment demand being insufficient; because the product mix is irrational, some not readily marketable products continuing to be produced mindlessly; because defaulting of payment among concerns has increased; because production concerns do not dare to ship goods; because some concerns import mindlessly, thereby damaging the normal production and business of the domestic market and concerns, and because of transportation tie-ups and seasonal production problems. As of the end of June, the cumulative production-marketing rate of industrial concerns at the township and above level throughout the country was only 92.51 percentage points, 1.81 percentage points less than during the same period in 1993.

State Statistical Bureau statistics on inventories of 143 industrial products show an end of June rise over the beginning of the year in the inventory of 100 products. The inventory of 70 of these products has risen more than 20 percentage points. For 37 of them, it has risen more than 50 percentage points. In the case of nine products for which the net increase in inventory has been substantial, the amount of money tied up in the production of finished goods making up the inventory increase amounts to more than 30 percent of all the money tied up in newly produced products of township and above industrial concerns during the first half of the year.

The meeting noted that because of the low production-marketing rate and the large increase in inventories, the shortage of working capital, which was extremely severe to begin with, has worsened. This has become an important factor affecting industrial concerns current economic returns. Economic and trade commissions at all levels (economic commissions and planned economy commissions) at all levels, as well as all industrial departments of the State Council are treating production cutbacks, inventory reduction, and sales stimulation as an important task. They are supervising, urging, and inspecting the organization of production in their local areas and in industrial concerns under their jurisdiction according to the principal of "improving flow, setting limits, and halting production." They must continue to produce goods that really sell well and for which money

can be ensured. They must make a list of products whose production is to be limited or halted, and they must regularly inspect and publish progress made in key concerns in limiting production and drawing down inventories. They must direct firms in their task of limiting production, drawing down inventories, and spurring sales. The amount of money tied up in finished goods has risen too fast. Provinces, municipalities, and prefectures, and key sectors such as metallurgy, machinery and textiles in which the production-marketing rate is fairly low must analyze the reasons. They must look for disparities, draw up concrete actions to be taken, and strive to increase the industrial enterprise production-marketing rate nationwide to more than 95 percent in 1994.

#### **Fixed Asset Evaluation Work Increasing**

94CE0721B Beijing JINGJI CANKAO BAO in Chinese  
19 Aug 94 p 2

[Article by Zhang Jinsheng (1728 6930 0524): "China's Assets Evaluation Business Is Growing Rapidly and Making Proud Achievements; From 1989 to the End of 1993, We Have Conducted Nearly 40,000 Evaluation Projects, With a Net Appreciation of 300 Billion Yuan"]

[Text] China's rising assets-evaluation business has been growing quickly in recent years, with the emergence of many assets-evaluation intermediary-service agencies playing an ever more obvious role in improving our management of state property and reducing the erosion of state assets in the process of property-rights change.

The Assets Evaluation Center of the State Administration of State Property reports that from the time assets-evaluation work was included in the management of responsible departments in 1989 up to the end of 1993, State Administration of State Property departments at all levels have conducted 39,128 assets-evaluation projects, with a pre-evaluation book value of 497.98 billion yuan, and a post-evaluation value of 751.27 billion yuan, for a net appreciation of 253.29 billion yuan, and an average appreciation rate of 50.86 percent. Assets evaluation involves some dozen economic activities, such as assets sales, Sino-foreign joint and contractual-joint ventures, shareholding operations, mergers, leasing, enterprise liquidation, and collateral security, playing a key role in protecting the rights and interests of all parties, such as property owners, operators, and traders.

As our assets-evaluation business has grown vigorously, China has begun to establish a full-time corps of assets evaluators. By the end of 1993, state and provincial State Administration of State Property departments had granted assets-evaluation credentials to 1,620 intermediary agencies, employing 26,784 people. To promote the growth of the evaluation business, State Administration of State Property departments throughout China have held 300 training classes in all types of assets

evaluation, training over 26,400 people. This new assets-evaluation corps, through tempering and exploration in evaluation practice in recent years, has gradually mastered assets-evaluation theory and methods, as well as accumulating much valuable experience. In particular, certain assets-evaluation firms have completed assets evaluations of nine enterprises whose shares have been issued and listed abroad, such as Shanghai Petrochemicals, the Ma'an Shan Iron and Steel Corp, and the Yizheng Chemical Fiber Corp. As these enterprises have enormous assets, the objectivity and fairness of their assets evaluation has been fully approved by the public and overseas investors, enabling the shares in these nine enterprises to be smoothly issued and listed abroad. Meanwhile, it has also obviously raised the evaluation quality of China's assets-evaluation ranks.

Through assets-evaluation practice, China has also begun to establish assets-evaluation working legislation and regulations.

Since the State Council issued in Order No. 91 the "State Assets Evaluation Management Regulations," the State Administration of State Property has also drawn up 10-plus related regulations, with all regions having drawn up corresponding rules and regulations in line with their local realities. This legislation and these regulations have played a positive role in standardizing assets-evaluation activity and ensuring evaluation quality, gradually putting China's assets-evaluation work onto a scientific and orderly path.

#### **Researchers Analyze Current Prices, Make Predictions**

94CE0650A Chengdu SICHUAN JINGJI RIBAO  
in Chinese 20 Jul 94 p 2

[Article by Xu Rongchang (6079 2837 2490), Liu Wen (0491 2429), and Zhang Xuhong (1728 2485 1347): "Looking at Future Movement of Market Prices"]

[Text] Under the quite serious circumstances in the current price situation, correctly analyzing and judging the way import prices are going not only is the premise for appropriately grasping the opportunity and dynamics for price reform, and is also an important basis for carrying out macro regulation and control. From a look at the current movement of market prices, there exist both factors affecting price rises and factors advantageous to price stability.

A. The main factors now affecting price rises are:

1. The macro-economic environment is still on the tight side, and the factor of demand causing price rises is still very strong. First, for several years in succession an excessive amount of currency has been issued, and the pressure of real and potential demand is fairly heavy; second, the scale of investment and the scale of ongoing construction are both very large; third, funds are tight in

state-owned enterprises, the degree of difficulty in operation has been intensified, and there is a lot of pressure to increase the amount of credit put in circulation.

2. The situation in which certain reform measures have cropped up one after another in recent years and cost factors have accumulated for many years produces a certain promotional effect on price rises. From a look at the current situation, we see that, on the one hand, in order to appropriately resolve the contradiction in China in which prices in the electric power, coal, and petroleum industries are seriously on the low side and in which there is a serious shortage of construction funds, the state will, in a planned manner, regulate the prices of these basic products; in order to solve the problem of the prices of agricultural products being on the low side and arouse the peasants' enthusiasm for production, the purchasing prices for the main agricultural products will be raised.

3. The agricultural situation is now cause for optimism. Although the current rural situation is, in general, good, some prominent problems exist. For example, in the south grain output has fallen, cotton production has been slumping for two years in succession, and the prices of sideline products are fairly high. All this adversely affects the supply of agricultural and sideline products and the stability of markets.

4. The effect of "getting stuck up" will become the biggest factor in making this year's prices rise, particularly the sharp increase in grain prices at the end of last year will have a delayed effect in the first 11 months of this year, thereby causing this year's price index, especially the price index in the first half of this year, to remain at a fairly high level.

5. At present some places have insufficient confidence in attaining the goal of price index control. The phenomena of ineffective measures being taken, overcharging level by level, and breaking through controls at each level are fairly widespread, and thus the goal of national price control is extremely difficult to attain.

6. The people's psychology of anticipating price rises has increased. Because the too many price rises have increased the burden on the enterprises and the people, the real standard of living of some rural and urban people has fallen, and this is especially difficult to bear for people who have left their jobs or retired, university and college students, and staff and personnel of enterprises that have difficulties in production operations.

B. The main factors advantageous to price stability are:

1. The state is taking various measures to level off and restrain prices, and they will gradually display their effect. In the most recent period, the State Council took many measures to control the investment in fixed assets and the too-rapid growth of consumer demand, and also effectively controlled the phenomenon of arbitrary price rises, e.g., deciding to clearly mark the price on a number

of important commodities and service items on which there are price controls. Looking at the price movement in March, we see that a slowing trend in the size of price rises had already appeared. From a look at the retail price index and the people's consumer price index in 35 large and medium-sized cities, and comparing them with the indices in the previous month, we see that in January the respective rises were 3.9 and 3.8 percent, in February 3.4 and 4.9 percent, and in March 0.3 and 0.5 percent.

2. The supply and demand situation for the main commodities is fairly good.

a. From a look at the main consumer goods, we see that in recent years, because governments and relevant departments at all levels, in order to stabilize markets and prices, vigorously recruited sources of goods and got a tight grip on "food basket" projects, many cities, with regard to grain, edible oil and other main varieties, implemented sales at restricted prices, thereby ensuring the supply of foodstuffs, nonstaple foodstuffs, and some other necessities for the life of their residents. The Ministry of Internal Trade arranged in order of the supply and demand for them in the first half of this year 726 commodities, and the results showed that commodities for which there was a basic balance of supply and demand accounted for 58.7 percent, commodities for which supply exceeded demand accounted for 29.7 percent, and commodities for which supply did not meet demand accounted for 11.6 percent

b. There is a steady growth of energy resources, raw materials, and other principal means of production. In the first quarter, compared with the outputs in the previous year, the output of raw coal grew 2.7 percent; the output of generated electricity grew 11.2 percent; and the output of steel materials, 10 nonferrous metals, sodium carbonate, caustic soda, chemical medicines, synthetic rubber, plastics, cement, and artificial board separately grew from 7.4 to 33.6 percent. At the same time, because industrial production has begun to "cool off," the tight situation in the supply of energy resources and raw coal and the "bottlenecks" in communications and transportation have been mitigated to different degrees.

3. The financial situation is taking a turn for the better. In the first quarter, compared with those in the same period of last year, financial income growth grew 21.4 percent while financial expenditure growth grew 23.8 percent; although the growth in expenditure exceeded the growth in income, the growths were within the normal range. From a general viewpoint, the implementation of the state budget is going fairly well, and the new financial and tax systems are basically operating normally. The banking situation is fairly stable. The main manifestations of this are: first, the situation with respect to withdrawing currency from circulation is fairly good; second, the savings deposits of urban and rural people have greatly increased, and at the end of March the sum of money remaining in saving deposits was

1,662,500,000 yuan, an increase of 116.9 billion yuan compared with that in the same period of the previous year; third, more loans are being extended in aspects with an economic focus; fourth, the interest-bearing rate on savings deposits in the state's specialized banks is rising; fifth, the sale of state treasury bonds is proceeding smoothly; and sixth, the Renminbi's exchange rate is fairly stable.

From a look at the way market prices are moving this year, we see that macro regulation and control is in a critical stage. At present, the gap between the size of the rise in prices and the goal of macro regulation and control is very wide, and the future trend of prices will be mainly determined by the orientation of macro policies and their actual results. There are three main possibilities in the present situation: First, if, in order to pursue high-speed economic growth, we relax the dynamics of macro regulation and control, inflation could be intensified, and the size of the growth in the general level of prices for the entire year will greatly exceed the planned target. Second, if we one-sidedly pursue price stability and are anxious to put pressure on the size of the price rises, and adopt a more severe "retrenchment" policy, after a period of time there will be a delayed reaction and the general level of prices will take a big drop; however, a situation will appear in which there is an economic slump and an increase in unemployment. Third, if we give consideration to the dual goal of price stability and economic growth, and, under the premise of maintaining control of the total amount and holding back the tendency for prices to rise too fast, strengthen and improve macro regulation and control, and, under the premise of maintaining an appropriate degree of growth of the national economy, gradually lower the size of the price rise, and strive to control the size of the price rise for four quarters within 10 percent, the size of the price rise for the whole year will be controlled at a level not higher than that of the previous year.

We think that the abovementioned third possibility should be vigorously strived for, and that the two possibilities before it should be avoided at all costs, because:

a. If we solely pursue economic growth and adopt a laissez faire attitude toward inflation, then the momentum of inflation will accelerate, and this will certainly have an adverse effect on social stability and political stability, and in the second half of this year we will have to adopt a policy of comprehensive retrenchment to bring inflation under control.

b. If we one-sidedly pursue price stability and adopt a policy of severe retrenchment, although we can very quickly control inflation, at the same time this will entail serious consequences for reform and development. First, the policy of retrenchment is bound to cause a big slump in the economy, thus losing the good "opportunity" for economic development. Second, China's reform of its economic system is in a critical period, and at this time if there is a big slump in the economy this will unavoidably cause a retrogression in the reform of the economic

system. Third, a big slump in the economy is bound to wear down a large number of industrial enterprises, thereby causing serious social problems.

c. The correct choice should be to give consideration to the dual goal of price stability and economic growth, adopting the policy of "slowly putting the brakes on the car and softly alighting on the ground," under the premise of ensuring an appropriate degree of growth of the national economy and gradually reducing the excessively large size of price rises.

We think that, in line with the current price trend, if the state's price reform items appear as scheduled, it is estimated that prices in the first half of the year will rise about 20 percent; if the state continues to strictly control the total amount of credit, particularly with respect to the investment in fixed assets, then the size of the price rise in the second half of the year will gradually fall back, to about 10 percent in the fourth quarter. Provided we do our work well, it will not be impossible for the size of the general level of the price rise in the whole year to be lower than that of the previous year.

#### **Economist Views Difficulties in Macroeconomic Control**

94CE0619A Beijing JINGJIXUE DONGTAI  
[ECONOMIC DYNAMICS] in Chinese No 6, 18 Jun 94  
pp 3-6

[Article by Zhang Zhuoyuan (1728 0587 0337) who works for the Industrial Economics Institute of the Academy of Social Sciences: "Relatively Strong Inflationary Trend, Increasing Difficulties in Macroeconomic Control"]

[Text] Since March 1993, the growth rate of China's general level of retail prices had always exceeded 10 percent. This rate in the entire year of 1993 was 13 percent, and that for January and February in 1994 had exceeded 3 percent. All this has manifested the rampant inflation spiral at present. People originally estimated that after the central government adopted the measures of strengthening macroeconomic control and adjustment since June 1993, the inflation rate is expected to decline. However, the objective reality is opposite to this estimate. Moreover, the measures taken by the government in exercising macroeconomic control are ineffective and faced with increasing difficulties because the excessive price hikes this time are mainly caused by rising costs. A typical survey shows that the issue of price once again tops all other issues.

#### **1. Difficult To Keep Inflation Rate Under 10 Percent in 1994**

The National Meeting on Economic Work at the end of 1993 and the National People's Congress in this March both called for efforts to control the growth rate of retail prices in 1994 under 10 percent. However, a host of facts prove that it is impossible to achieve this goal.

Due to the fact that the growth rate of price hikes during the first half of 1993 was relatively lower, while that during the second half of 1993 was comparatively higher, the lagged effect of the 1993 price hikes, the so-called tail-wagging factor [qiao wei ba yin su 5062 1442 1572 0936 4790], will raise the 1994 retail price level by 6 percent. That is to say that even if this year's commodity price remains the same level of that at the end of 1993, the retail price index will also reach 106, representing an increase of 6 percent. However, the monthly chain index of the retail price in January and February this year is about 4 percent. This means that even if the government uses administrative means to freeze the commodity price at the February level, the growth rate of this year's retail price will also exceed 13 percent which surpasses that of last year. Only by lowering the commodity price from the February level by more than 3 percent, will it be possible to keep the inflation rate under 10 percent. Nevertheless this is something impossible to achieve. The commodity price continued to rise in March. The retail price in the country between January and March this year rose 20.1 percent over the same period in 1993. It looks like, even if the government strengthens its control, it can only slow down the inflationary trend, but it cannot prevent the commodity price from continuously rising and has even less of a chance to make the price drop.

The commodity price will continue to rise on a relatively large scale this year because of the following factors:

1. The circulating-tax system announced this year with emphasis on the value-added tax will push the commodity price up to a certain extent. The new tax system will not increase the burden of the enterprises in general. However, it will treat different enterprises and links differently. According to an estimate, 26 percent of the enterprises would find their tax burden increased, while 20 percent of them find their tax burden decreased. The tax burden of enterprises in the wholesale business would increase by about 0.44 percent, while that of retail enterprises would decrease. However, if you visit all enterprises to conduct a survey, nearly all of them would say that their tax burden has increased. At a time when the market demand is high and commodity prices are decontrolled, those enterprises whose tax burden has increased would inevitably try one thousand and one ways to shift their burden to consumers through price increases, while those whose tax burden has decreased would refuse to duly drop their prices due to the rigidity of their price and profit structure. All this serves to push the price upward in an overall manner. The experience abroad indicates that the levying of the value-added tax would certainly cause the price to rise to a certain extent. Thus, many countries choose to levy the value-added tax at a time when the economic development is declining, that is, when the inflationary pressure is relatively lower. The effect of the value-added tax on commodity price in some countries is as follows:

During the first year when the value-added tax was introduced in Holland, the consumer price rose 7.5

percent, up 3.8 percent over the 3.7 percent rate of inflation in the previous year when such tax was not levied. During the first year when the value-added tax was introduced in Denmark, the commodity price rose 2 percent. During the first year when the value-added tax was introduced in Belgium, the commodity price rose 0.6 percent. During the first year when the value-added tax was introduced in West Germany, the commodity price remained almost the same as that in the previous year. China's economy was developing at a high speed and its inflationary pressure was high when China introduced the value-added tax. The impact of such tax on inflation should not be under-estimated. Furthermore, China's market has not matured, and its legal system is far from being perfect. Right now, some enterprises have been found to make use of the value-added tax to jack up prices and reap exorbitant profits, adding more fuel on the inflationary spiral.

2. The income tax system reform also affects the commodity price. The new income tax system has not only unified the income tax (tax rate 33 percent) of the domestic-funded enterprises, but also set the accounting standards and general rules for financial affairs, and adequately raised the fixed assets depreciation rate. Buildings, machinery and other fixed assets are depreciated by 5 percent, 10 percent and 20 percent respectively each year. In accordance with the international practice, all labor charges (including bonuses paid) and loan interests for investments in fixed assets are regarded as a part of the production cost. All this increases the production cost of the enterprises and pushes the price to rise.

3. After the unification of the exchange rates at the beginning of 1994, there are far less goods imported with state financial subsidies. Some goods which were originally imported at the rate of 5.8 yuan Renminbi to US\$1 must now be imported at a rate of 8.7 yuan Renminbi to US\$1. The customs duties must be calculated on the basis of the market rate. All this unavoidably increases the cost of some imported goods or those products which are manufactured with imported raw materials; and pushes the price up. Right now, the price of chemical fertilizer has increased a great deal. This will directly affect the production cost of major farm products such as grain and cotton and increase commodity prices in an overall manner.

4. The adjustment of wages and the payload of government employees between the end of 1993 and the beginning of 1994 has already brought about or is bringing about an increase of wages in various enterprises. Thus, residents' incomes, particularly those of urban residents, have greatly increased. This has caused not only cost-push inflation but also demand-pull inflation.

5. In addition, the impact of price readjustment and reform to commodity price should not be ignored. The government has already decided to raise its purchasing prices of grain and cotton this year. Right now, the price

of grain is rising. This will vigorously push up the prices of foodstuffs and overall commodity prices. About half of the Chinese residents' living expenses is spent on food. Price increases for grain and foodstuffs have made the people worried. Furthermore, the price increases for crude oil, natural gas and electricity under consideration this year will apparently add fuel to inflation.

6. During the past several years, the cost of investment rises more rapidly than the retail price. It pushes the retail price upwards. In 1992, the cost of investment rose 12.1 percent, up 6.7 percent than the 5.4 percent growth rate of the retail price. The cost of investment in fixed assets in 1993 rose 26.6 percent, up 13.6 percent than the 13 percent growth rate of the retail price. In 1993, the purchasing prices for raw materials, fuel and power rose 35.1 percent; the factory prices for capital goods increased 33.7 percent; the factory prices for rolled steel, lumber and cement rose 82.7 percent, 28.5 percent and 48 percent respectively; and the production cost of processing enterprises also climbed steeply. The cost of industrial enterprises for the manufacture of products within the state budget rose 28.3 percent. At a time when the market demand is high, the cost increases in the past several years will be gradually passed on to the consumers through the retail price increases. Therefore, there exists a strong pressure from cost-push inflation.

The aforementioned factors indicate that this year's inflation cannot be kept under 10 percent. Instead, it would be higher than the 13 percent inflation last year. If we do a good job in controlling it, it is expected to be in the range between 15 percent and 20 percent. If we fail to do so, it would go over 20 percent. All departments concerned should pay full attention to this situation.

## II. Excessively High Inflation Rate Harmful to Sound Development of Reform Program

The announcement of China's five major reform programs in the fiscal and taxation systems, banking system, investment system, foreign trade and exchange system and assets management system this year is of great significance in preliminarily establishing the socialist market economy. All these reform programs conform with the requirements in developing the socialist market economy and greatly contribute to the normal operation of market economy. Right now, the reform of the fiscal and taxation systems, the merge of exchange rates and the reform of the banking system have already been announced. These programs have been preliminarily carried out for several months. The general situation is fine. We may say that these programs have scored initial successes.

Meanwhile, we must also realize that the excessively high inflation rate has restrained the sound development of the reform program in the following aspects:

1. Our pace in carrying out price reform may be forced to slow down, and projects which China originally plans to announce may have to be postponed. The adjustment of

the prices for crude oil, natural gas, electric power and freight may have to be delayed. Moreover, in order to curb high inflation, it may be necessary to adopt administrative measures to once again control the prices of some of commodities, especially some daily necessities whose prices have been decontrolled and to freeze the price or set a highest limit for the price. Although this is an emergency measure and there is a time limit for its implementation, it is, nevertheless, a regression for the reform program. We had seen this kind of situation between 1988 and 1989. Right now, we have seen or will once again witness this kind of situation.

2. The degree of marketization may be affected. In order to avoid excessive fluctuations of market prices, it is sometimes necessary to close the market for certain commodities and change open operation into state purchase or sale on a monopoly basis to inhibit the role of market mechanism and the basic role of the market in allocating resources. In general, serious inflation poses a major threat to the socialist market economic system, because once there is a serious inflation, administrative interference is unavoidable to limit the scope of market regulation. This affects the process of marketization to varying degrees.

3. Inflation hampers the deepening of banking reform. To curb inflation, it is essential to tighten the money supply. However, at a time when the interest rate is not so flexible at present, it is necessary to tighten the control of the credit line and the total amount of credits and prevent excessive growth of money supply. A high inflation rate inevitably widens the gap between the bank interest rate and the market interest rate. (For example, the market interest rate is 100 percent higher than the bank interest rate.) As a result, it will be hard to distinguish policy-related banking from commercial banking. The process of changing specialized banks into commercial banks will be hampered, and the reform of the banking system hindered. At the same time, this is harmful to establishing and improving the financial order.

4. Greater discrepancies between incomes is harmful to rationalizing the relations in income distribution. A high inflation rate encourages speculators to reap staggering profits by illegally buying and selling commodities and jacking up prices. Meanwhile, some of the residents are low-wage earners, unemployed laborers and workers who cannot get paid if they do not work hard. They and some retired workers and college and middle school students have to lower their living standards because of inflation. According to a survey, the actual incomes of 19 percent of urban residents had dropped in 1993. Apparently, the widening of relative income gaps will create new social contradictions and problems. It will not only prevent us from handling the relations in income distribution in a rational manner, but also undermine social stability.

In short, a high inflation rate will not only produce chaos in our economy and society, induce a handful of people

to seek staggering profits in commodity circulation and disturb the market order, but also pollute the economic surroundings in deepening our reform and prevent us from quickening our pace in building the socialist market economic system. All this runs counter to our efforts in deepening the reform.

### III. A Policy-Related Choice for Curbing Inflation—Raising Interest Rates

We may use economic means to curb inflation and prevent the commodity price from rising too rapidly. We may also adopt administrative and legal measures to achieve this goal. Right now, we should use more economic and legal measures instead of relying on administrative means only. That means to say that the government must timely adjust its macroeconomic policy from one with emphasis on insuring growth to one with emphasis on insuring both price stability and growth. One of the major measures to be taken is to raise the interest rates for both deposits and loans and correct the abnormal situation of a negative interest rate.

The experience abroad indicates that to keep the nominal interest rate higher than the inflation rate and make the actual interest rate a positive number is the minimum requirement in developing a nation's economy. From now on, China must encourage its people to save more money, maintain a high savings ratio and high interest rates, and support high-speed economic development. Meanwhile, it must guard against and redress the sign of investment overheating which had repeatedly cropped up in the past. For this, we should persistently implement a policy of maintaining a positive interest rate.

However, the situation of negative interest rate in China makes people feel uneasy. The inflation rate in 1993 was 13 percent, and that of the first three months this year jumped to 20.1 percent. On the other hand, the interest rate for one-year savings deposits is less than 11 percent and the interest rate for loans about 10 percent right now, several percent lower than the inflation rate. We must also realize that the present retail price index does not truly reflect the changes in commodity prices, because it fails to show the changes of service charges which rose sharply during the past several years. It is generally believed that it is relatively accurate to use the residents' cost of living index to reflect the commodity prices. The growth rate of this index in 1993 was 14.7 percent, up 1.7 percent than that of the retail price index. This indicates the sense of urgency in raising the interest rate.

At present, some economists and economic theoreticians disapprove raising interest rates. In general, their reasons are as follows:

1. Raising interest rates would affect the issuance of 100 billion yuan worth of treasury bonds this year.
2. Raising interest rates would increase the burden of state-owned enterprises and make things even more

difficult for those large and medium-sized enterprises which are already in financial trouble.

3. Current interest rates are relatively less flexible. Raising interest rates would have little effect in encouraging residents to save money and in curtailing investments.

4. Due to the fact that the government plans to keep the inflation rate under 10 percent this year, it is not likely that the interest rate for one-year savings deposits would be lower than the inflation rate.

I believe that these reasons are not so sound.

In principle, we should not allow the situation of negative interest rate to exist for a long period of time, simply because we need to issue treasury bonds. (Treasury bonds will be issued throughout this year. If we cannot raise interest rates because we need to issue treasury bonds this year, it means that interest rates will remain at the same level until the end of this year.) If the interest rate of the treasury bonds is unreasonable or too low, we should make the appropriate adjustment, or adjust the interest rate of those treasury bonds which are issued later. Furthermore, our proposal to raise interest rates right now is aimed at fighting the galloping inflation. Thus, we must attach importance to raising short-term interest rates (interest rates for one-month, three-month, six-month and nine-month deposits) and to changing the inflexible practice of keeping long-term interest rates higher than short-term rates. After we have controlled the inflation by raising short-term interest rates, the inflation rate will gradually drop. Thus, we adopt a relatively prudent attitude about raising long-term interest rates. The treasury bond being issued right now is precisely a kind of long-term bond which will mature in two or three years. There is no need to duly change its interest rate to keep pace with the changes of the short-term interest rates.

To raise interest rates is mainly aimed at raising short-term interest rates. Actually it is a sign shown to the general public by the government and the central authorities about their determination to deal with inflation. This policy and intention may serve to increase the confidence of the people in the currency. Since the current plan to raise interest rates is mainly aimed at curbing inflation and we realize the difficulties of the debt-ridden state-owned enterprises, we may consider implementing the temporary measure of charging old interest rates to old debts and new interest rates to new debts. This will also help prevent people reaping staggering profits from inflation by borrowing money at a low interest rate.

We must also realize that right now there is indeed little flexibility in China's interest rates. However, interest rates will wield considerable impact on encouraging savings and restraining investments. Raising interest rates imposes relatively rigid restraint on enterprises which are not state-owned. We also cannot say that

raising interest rates would impose no restraint on state-owned enterprises at all. Therefore, it will still impose certain degree of restraint on investment. Raising interest rates will play a more significant role in encouraging residents to save money. Our past experience including the two occasions both in May and July 1993 in which interest rates were raised will prove this point. Raising interest rates to encourage people to save more money will help alleviate the inflationary pressure.

The saying that the inflation rate will not be lower than the normal interest rate because China plans to control the inflation rate under 10 percent is not so convincing. Right now, this plan is far from being realistic. All people of good judgement fully understand that it is impossible to control this year's inflation rate below 10 percent. Therefore, they do not believe that the aforementioned plan can be realized. There is little sense to argue on the basis of the aforementioned plan which almost no one believes that interest rates are not so low at present. Therefore, this argument cannot be used as a basis to oppose any effort to raise interest rates.

There are other choices and measures for the control of inflation. We will not elaborate on them since our space is limited here.

#### **Over Construction Mars Effect of Investment Cooling**

94CE0709A Beijing ZHONGGUO XINXI BAO  
in Chinese 25 Jul 94 p 1

[Article: "Marked Downturn in Investment Overheating Trend, But Problems With Continued Expansion of Construction and Structural Readjustments Remain Prominent"]

[Text] The most recent statistical data shows that with the gradual application of Central Committee measures for increased control over investment in fixed assets, the trend toward overly rapid investment growth has been brought under preliminary control. The number of newly begun projects has declined noticeably, the investment structure shows improvement, and positive achievements have been made in macroeconomic control. Nevertheless, conspicuous problems remain in the form of too much construction and a not entirely rational structure.

A downturn has occurred in the degree of increase in investment. Statistics show a total investment in fixed assets of 450.5 billion yuan during the first half of the year. This is a 25.2 percent increase over the same period in 1993 (calculated in terms of comparable specifications, and the same applies hereinafter), but a 35.8 percentage point downturn in the degree of increase compared with the first half of 1993. It includes a 308.1 billion yuan, or 37.5 percent, increase in state-owned unit investment, which is a 33.2 percentage point downturn; a 76.1 billion city and countryside collective unit

actual investment, down 3.5 percent in a 108.2 percentage point downturn; and a 66.2 billion yuan city and countryside residents actual investment, up 17.76 percent in an 11.6 percentage point rise.

Tracking of planning channels shows a state-owned unit investment in capital construction of 171.5 billion yuan, up 39.5 percent from the same period in 1993; a 7.12 billion yuan investment in technological renovation and transformation, up 36.5 percent; a 43.9 percent increased investment in building construction; and a 13.4 percent increase in other state-owned construction. All exhibit a substantial downturn in the degree of increase during the same period in 1993.

Investment in fixed assets during the first half of the year showed the following distinguishing features: First, the downturn for local projects was much faster than for central government projects. Second was a marked decrease in the number of new projects started, and third was an enormous decline in the amount of increase in real estate investment. A burgeoning industry in the national economy in recent years, real estate has shown strong investment growth momentum—75 percent in 1992 and 143.5 percent in 1993. Because of the lack of standardized management, however, a fractionated, decentralized, and disorganized situation has come about. During the last half of 1993, the state took a series of actions aimed at the excessive overheating of development zones and real estate from which a certain amount of results have been gained. During the first quarter of the year, real estate development firm investment increased 73.7 percent. During the second quarter, it decreased 43.9 percent to show a marked cooling of the overheating resulting from the manifold increase during the same period in 1993. This played a positive role in slowing investment in 1994.

The investment structure improved, investment in basic industries and infrastructure increasing. State-owned unit investment during the first half of the year included 62.4 billion yuan for energy industries, up 19.3 billion yuan from the same period in 1993 in a 44.9 percent increase. Investment in energy industries as a percentage of total investment increased from 22.5 to 22.9 percent. Raw and processed materials industries invested 31.8 billion yuan, up 38.2 percent from the same period in 1993. This was a rise from 12 to 12.1 percent as a percentage of total investment. This reversed the straight line decline during the past 2 years in the percentage of investment in the energy and raw and processed materials industries. Investment in transportation, and in posts and telecommunications continued to improve, 55.1 billion being invested. This was a 16.7 billion yuan increase, up 43.5 percent, in an increase from 20.1 to 21.1 percent of total investment, the highest percentage in recent years.

Investment in sectors producing goods already in sufficient supply was brought under control. State-owned units' investment in the machine building industry

during the first half of the year included a 17.6 percent rise over the same period in 1993. Their investment in the textile industry increased 14.5 percent, and their investment in other industries increased only 2.3 percent. Investment in all was vastly lower than the 33 percent increase in investment in secondary industries, and investment in these industries as a percentage of total investment fell from 17.9 percent during the same period in 1993 to 14.7 percent, making it the lowest percentage in recent years.

Analysis by the units concerned shows that during this period of overall health development of investment in fixed assets, macroeconomic regulation and control of the investment field cannot be relaxed. Two problems require particularly close attention during the second half of the year: One is the continued expansion of total construction, and the other is a serious tendency toward the expansion of capacity as part of investment in technological renovation and transformation.

### Market Supply, Price Situations Maintain Stability

94CE0709C Beijing JINGJI CANKAO BAO in Chinese  
29 Jul 94 p 2

[Article by correspondents Ding Genxi (0002 2704 0823) and Wang Guochen (2769 0948 6591), and Trainee He Xiaojun (0149 7522 6511): "Commodity Markets Nationwide Maintain Overall Stability. Supply and Demand Largely in Balance; Slowing of Price Rises"]

[Text] Ding Junfa [0002 0193 4099], press spokesman for the Ministry of Domestic Trade, said at a 27 July Ministry of Domestic Trade conference that China's national economy continued rapid growth during the first half of the year. Commodity markets throughout the country maintained overall stability; supply and demand was largely in balance for an overwhelming majority of goods, and market price rises have slowed.

Ding Junfa said that sales of consumption goods for the first half of the year totaled 718.76 billion yuan in a 25.6 percent increase over the same period in 1993. After deducting for price increases, the actual increase was 4.8 percent. Retail sales of the means of production totaled 989.4 billion yuan, up 16.1 percent from the same period in 1993. After deducting for price increases, the actual increase was approximately 4 percent. The country's commodity market situation during the first half of the year had the following distinguishing features:

First was the substantial stability of means of livelihood markets in which both buying and selling increased steadily. Supply and demand for principal agricultural and sideline products tracked each other rather closely, rural markets rallying substantially. Statistics from 73 large department stores throughout the country showed a respective 18.2 and 17.5 percent increase between January and June in total commodity purchases and sales over the same period in 1993. This included a 61.6

percent rise in food, an approximately 35 percent rise in clothing, and an approximately 14 percent rise in sundries. Supplies of 524 industrial goods used in daily life were ample, the supply of 519 of them, or 95.8 percent, being greater than or equal to demand. The supply of only 23 commodities, or 4.2 percent, did not meet demand. Moreover, the supply of 67 out of 128, or 52.3 percent, of major agricultural and sideline products met demand. The supply of 48 commodities, or 37.5 percent, did not meet demand, most notably the supply of cotton, edible oil, sugar, and pork. In addition, rural markets became increasingly lively during the first half of the year. Between January and June, retail sales of consumer goods in cities throughout the country increased 27.3 percent over the same period in 1993, and at the county level and below, they increased 23.3 percent. The gap between city and country markets in the amount of increase narrowed. During May and June, the amount of increase in rural market retail sales below the county level was higher than that in cities for the first time in recent years.

Second, it was a buyers' market for means of production, supplies outstripping demand as inventories rose. Today, except for a small number of varieties, total supply of an overwhelming majority of goods is greater than demand. Prices are relatively stable. Statistics show that between January and June supplies of 16 major goods including processed steel, copper, aluminum, and timber increased by an average 6.3 percent. However, domestic demand increased by only approximately 3.9 percent in an 11.3 percentage point downturn from the same period in 1993.

Third was a slowing in the rise of market prices, but inflationary pressures remained. Thanks to a series of government actions taken in 1994, the drastic rise in prices gradually eased. The month by month chain of consumer price rises declined remarkably. Increases of 3.5 and 3.8 percent respectively during January and February, slowed to 0.9, 1.4, 0.8, and 1 percent from March through June. Between January and June, the national commodity retail price index rose 19.8 percent over the same period in 1993, and in 35 large and medium-sized cities, the consumer price index rose 21 percent. This demonstrated that even though the rise in prices began to slow, overall prices remained at a fairly high level.

Fourth was steady progress in commodity circulation system reform, new advances being scored in rectifying the commodity market order. Reform of the grain procurement and marketing system, and the establishment of a grain risk fund were inaugurated. In early June, grain prices were adjusted. Grain market prices throughout the country remained basically stable, and the role of state-owned grain departments as principal channels was further reinforced. Price monitoring methods were promulgated for 20 different essential goods and services were promulgated, and a system for reporting prices for important commodities was put

into effect to standardize pricing procedures. Shanghai smoothly inaugurated a law against staggering profits. Reform of the agricultural means of production circulation system is being carried out urgently. Chemical fertilizer markets have already been preliminarily straightened out.

### **Economists at Symposium To Discuss 1st Quarter Economy**

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[ECONOMIC DYNAMICS] in Chinese No 6, 18 Jun 94  
p 16-21

[Article by Qin Hai (4440 3189), State Information Center: "Maintaining Stable and Even Macroeconomic Controls—Closely Monitoring Direction of Trends: Summary Report of Symposium to Discuss the State of the Economy in the First Quarter of 1994"]

[Text] A symposium on "Analysis of Economic Conditions in the First Quarter and Projection for the Balance of 1994" was held 28-29 April, 1994 under the joint sponsorship of the State Planning Commission's Economic Research Center and Policy Research Office and the State Information Center with participation by over 70 specialists and scholars from various universities, specialized institutes, scientific research organizations and relevant management departments in the State's Council. Issues of how to analyze and assess the current economic conditions and salient economic contradictions and in what direction macroeconomic policies should be aimed were discussed in depth, and the participating specialists and scholars freely expressed their views. After two days of discussion, there was consensus among the participants on certain theoretical issues, but there were also divergence of views.

### **I. How To Assess Current State of the Economy**

#### **1. Overall Assessment of Macroeconomic Situation**

There was general agreement among the participants that from the standpoints of economic growth, consumption, investment, finance, foreign trade and foreign exchange, the macroeconomic situation is relatively normal in the first quarter of 1994. The effects of macroeconomic measures applied in the second half of last year can still be felt, but these have achieved their intended effects. The two major problems we confronted last year were financial disorder and excessive rate of investment driven by speculations in an overheated economy, and rising inflation resulting from accelerated economic growth. But by the present time, the first problem has basically been solved or greatly ameliorated. The difficult problems we still confront at present, however, are persistently high inflation, increasing numbers of enterprises in default, severe operational difficulties among State-owned enterprises, all of which are the effects of an overheated consumption-oriented economy operating under conditions of an imperfect economic system. Therefore from an macroeconomic standpoint,

while the national economy has passed through a most critical stage, and macroeconomic operation is returning to normal, the various existing economic and social contradictions are such that in addition to macroeconomic coordination, microeconomic adjustments are required.

Some of the participants held a contrary point of view. They considered that in terms of the national economy, the sharp rise in commodity prices and accelerating inflation represent one aspect [of the problem]; while the decline in production, increasing unemployment, and serious overstocked inventories of materials and consumers products another aspect. Why is it that given the latter problems, commodity prices are still rising? Inadequate demand was cited as one of the reasons. Viewed in terms of citizens income, wages and salaries disbursed by banks in the first quarter increased by 39.87 percent compared to an increase of 31 percent in the entire 1993; retail prices of consumers goods increased by 25.3 percent in the first quarter compared to 27.4 percent in all of last year; increase in prices on average is less than increase in salaries and wages and the two trends are going in opposite directions, with the consumption trend this year even lower than that of last year; on the other hand, savings rate is rising and the total urban residents savings in the first quarter increased 1.68 times over that in the same period of last year, compared to the 32 percent increase in the entire last year; the rate of savings going into investment is slowing and provides objective evidence that demand is weak. At the same time, on a microeconomic level, the discrepancy between salaries and wages and interest rates shows that high and low returns are affected by rising wages and interest rates, and under circumstances of economic contraction, they lead to consumer prices remaining high while production declines.

Another view holds that the present situation still reflects the first phase of economic boom set off by Deng Xiaoping's speech made during his southern tour, that the effect of China's macroeconomic adjustments made in 1993 is still being felt, but that, objectively speaking, the economy still has to absorb and digest the various contradictions and consequences of disorderly, uncontrolled and unregulated economic growth that took place under chaotic financial and market conditions. Three important bench marks were noted: First, in substantive terms, the economic system has basically completed dismantling of the old state of enterprise system and is moving toward building a new system out of wreckage of the old. In particular, when several major reform measures have been introduced, there is great significance in terms of the creation of a new system. But the difficulties encountered in this process are considerable; objectively speaking, in the new ways of doing business, disorder and lack of standard remain to be problems; various entities and enterprises still engage in investment, borrowing and selling without any order, and development zones are established and local preferential policies adopted which do not benefit the economy as a whole;

while these activities and trends are no longer the same as the old ways of doing business, they add to the degrees of difficulty in building a new system. Second, even though the economy has gone through an economic contraction stage, economic growth still carries a strong momentum. The cycle of economic contraction has not resulted in an absolute downturn in the economy which still maintains a relatively fast rate of growth, with the first quarter's growth rate reaching 12.7 percent. Third, compared with last year, the economy is more stable, and there are clear improvements in terms of easing the various contradictions of overall equilibrium, bottleneck restrictions, investment and foreign exchanges. It is anticipated that the "valley" in this year's economic cycle will persist to the end of this year.

At the same time, however, a group of comrades contended that while there is no dispute the economy is contracting, there is less certainty as to specific stage of contraction, which is particularly important for determining which direction microeconomic policies should be aimed. If the economic contraction is in the early stage, then greater stimulus should be applied to prevent further slippage; if the middle stage, then regular stimulus should be maintained along with microeconomic adjustments; and if the last stage of contraction, then stimulus should be withdrawn.

## 2. Assessment of Fiscal and Monetary Situations

There was relative unanimity among the specialists and scholars in their assessment of the fiscal situation, but there were certain divergence of views in assessing the monetary situation. These are manifested in the following respects:

In their assessment of the fiscal situation, the group generally considered that in the first quarter, bonds sales and national debt management proceeded satisfactorily, the balance of fiscal revenue and expenditures has had concrete effects, the management of the nation's budget estimates was effective, and the new taxation system is taking hold. The fiscal revenue picture in the first quarter was good, showing an increase of 21.4 percent over the same period of last year; collections of value-added tax, enterprise tax, customs duties increased quite rapidly; from the standpoint of carrying out the national budget estimates, revenue and expenditures in the first quarter accounted for 13 percent of the year's projection. But the fiscal situation this year is still quite serious, and contradiction in fiscal revenue and expenditures may appear as the months go by. The reason is that a part of the value-added tax will be refunded to the enterprises; the adoption of a partial refunding of taxes represents the tactic of collection first and refund second, but a part of the revenue cannot be put to use as regular expenditure. In the four quarters last year, certain localities attempted to increase the amount of refund from the national treasury, by borrowing from banks to increase the amount of total refund, and this part of the refund has been passed on to this year. At the same time, the

government's fiscal revenue collection rate is slow, only 12.6 percent in one quarter, amounting to 1/3 of regional fiscal revenue receipts; this is the result of under collection of the consumption tax, income tax from state-owned enterprises and "two currency" receipts. The collection of consumption tax in the first quarter declined by 40 percent, income tax of state-owned enterprises down by 13 percent, and "two currency" receipts down by 50 percent. If other factors were added, such as fiscal difficulties at the county-level and drop in profits in state-owned enterprises, a budget of fiscal revenue and expenditures in balance this year is still under great pressure.

There were two divergent views in assessing the monetary situation. Some of the comrades considered that China's monetary situation has already shown a clear upturn, and that the currency, bond and foreign exchange markets which bear on the monetary situation have all operated satisfactorily. In the first quarter (January-April) this year, some 7 billion yuan were withdrawn from circulation; the national debts reached 60 billion yuan; foreign exchange reserve increased by 7 billion from January-March, chiefly because the customs duties base was enlarged, and the value-added tax has soaked up the "liquidity" in the coastal areas, which accounted for the lowering of demand for foreign exchange; and savings increased by some 180 billion yuan from January-March. The issues especially of note are, first, deposit rate in specialized banks reached as high as 12 percent (generally 7 percent) and, second, beginning in March, the number of loans has increased. The former was created by changes in the system. Since July of last year, branches of the People's Bank of China were not allowed to make loans but could do so only through the headquarter; in order to meet expenditures, specialized banks must strengthen management of accounts and repayment rates, and their loan activities tended to be more conservative resulting in raising the level of deposits; private loans market was curbed; procurement of agricultural products were turned over to specialized units for handling; these were the systemic factors which prompted deposits level in specialized banks to rise. Therefore, in assessing the monetary situation this year one must also pay close attention to the decline in lending by the central bank, the rise in foreign exchange reserve and the two new special characteristics which account for the higher deposits level in specialized banks.

Some of the comrades felt that any analysis of China's monetary situation must take into account the expansion of monetary supply and deepening monetization of the economy. Monetary expansion began in the fourth quarter of 1989, and the reason was the increasing monetization of the economy leading to increasing the normal supply of currency. By 1992, monetary supply was in reality excessive and led to the boom in the real estate and futures markets, which however helped ease the inflationary pressure through the "paper profit" generated from the escalating prices in land, real estate

and commodity futures. After monetary tightening was applied in 1993, the excess money turned into speculative venture capital and invaded other areas, and this quickly manifested itself in persistently high inflation. From the standpoint of the amount of currency in circulation, inflation hit a high of 30 percent in mid-1992, continued to fluctuate at around 25 percent and, only after June 1993, dropped to below 25 percent. Fluctuations of the retail price index were in the same range as the fluctuating volumes of currency in circulation. Therefore, it was felt that in analyzing the monetary situation it was necessary to look at it from another angle and to pay closer attention to changes in the extent of monetization in the economy.

### 3. Assessments of the Scope of and Demand for Investment

One view holds that, objectively speaking, there are several factors which restrain the demand for fixed asset investments; First, the central government has emphatically insisted on controlling the scope of fixed asset investments; second, after the tax separation system was put into effect, regional and local governments have been less enthusiastic in starting or operating processing enterprises; and third, changes in the macroeconomic environment and shortage of capital have changed the expectations of investors; therefore, it was felt that this year's investments in fixed assets should, generally speaking, be at the same level as last year's.

A second view holds that in order to maintain an economic growth rate at not less than 9 percent, and because increase in consumption has slowed, a nominal rate of increased investment should be the goal, and that a 10-15 percent rate of increase of investment in real terms should be maintained.

A third view states that because the fiscal system reform is underway and banks are carrying out policy-oriented loans and investments, the actual rate of capital made available to China's key construction projects is rather high; on the other hand, due to curbing of irregular lending and raising of capital, the avenues available to regional and local authorities to raise capital were also blocked and profits of enterprises suffered; at the same time, as a result of the tight control of credit for real estate purchase and strengthened collection of value-added tax on real properties, the real estate boom is fading. Therefore, it was felt that there may possibly be inadequate demand for investment this year.

A fourth view argues that there are reasons to believe that a relatively large scope of investment will still obtain this year, and that the mechanism which generates investment demands is still functioning. On the one hand, there was a great amount of work left over from last year still to be done and, given the multiple sources of capital and investors, it is not possible for investment projects to be stopped. On the other hand, considering the high enthusiasm of regional and local governments

for strengthening their infrastructure construction, and the fact that in reality there are little administrative or capital restrictions, they can turn to utilizing foreign capital if domestic capital supply were inadequate. Therefore, it was felt that investment this year very possibly will exceed the original plan, and may reach or even exceed the level of 1.47 trillion yuan.

### 4. Assessment of This Year's Prices Trend

On the trend of prices this year, the participating specialists and scholars were relatively unanimous in their assessment. They generally considered that price rise has peaked in the first quarter, and that prices should gradually decline beginning in March, and the annualized rate of increase is projected to be between 13 to 15 percent. Specifically on price rise as it relates to the market structure, it was anticipated that if appropriate growth in the scope of investment was maintained, and speculative actions controlled, a levelling off in prices of production materials can be maintained; price increases among agricultural products however have a special characteristic of the ladder effect which, if controls were properly applied, can keep prices stable.

## II. Theoretical Disagreements on Inflation Assessment

### 1. Causes of Inflation

Symposium participants held four points of view regarding the causes of inflation. First, inflation is "caused by inadequate supply or driven by demand"; this year's first quarter inflation rate was 20.1 percent, of which 13.9 percent was the residual tail-end effect and 6.3 percent the current inflationary factor; but at the same time, the supply of agricultural side-line products was inadequate. Second, inflation is "driven by fixed costs," which include the costs not only of labor but also of interest; and the two important factors in labor cost-driven inflation is escalating wages and wage adjustments of the civil service; although the increase in sales of industrial enterprises was projected at 7.8 percent for the first quarter, other actual increases include: profit tax of 29.1 percent, all other taxes of 50.7 percent, salaries and wages of 35.9 percent and foreign exchange costs of 40 percent; these costs added to the fixed costs exceeded the increase in sales of products, and the cost of interest fueled the inflation. Third, inflation is the result of "price reform and management," the argument being that when the system is in transition, market pricing and exchanges lack standards, and when price reform is instituted, some parts of the market take advantage and raise prices, [timed] particularly at certain points of the sales cycle where market management is relatively weak, which in turn causes the overall price rise in the market. Fourth, inflation "is not related to currency," or due to "the system in transition," for the current inflation is no longer directly linked to currency supply, but is the result of the transitional formula used to promote economic growth, which is an unavoidable phenomenon of a system in transition.

## 2. Assessment Regarding the Value of Inflation

There were two main assessments regarding the value of inflation. First, inflation is viewed as "economic take-off" or "a suitable type of inflation." Comrades sharing this assessment considered that at the take-off stage of the economy, a suitable degree of inflation will benefit development and promote economic growth. Second, inflation is seen as not only creating a threat to social stability but also leading to aggravating the uncertainties in the economy. The latter means that producers will find themselves in a market environment in which "the static drown out the [market] signals," so they cannot produce at an optimum basis; the consumers, faced with confusing price signals, will have no way to decide on how best to consume, so resources cannot be optimally deployed, resulting in sacrificing an effectiveness and lowering the quality of economic growth.

## 3. Assessment of Inflation Trend in 1994

Specialists and scholars at the symposium held two differing views regarding the likely trend of inflation this year. One view holds that the price rise this year has peaked and beginning in March is beginning to decline gradually, inflation therefore will continue to decline with each quarter; even so, however, inflation is not likely to go down to 10 percent and a relatively optimistic projection calls for an annual inflation rate of between 13 and 15 percent in 1994. Another view holds that the current inflation has a built-in tendency to accelerate, i.e. when inflation declines, debts go up. The current situation shows that debts are increasing, and in the first quarter, the monthly price rise ratio is gradually dropping; there are therefore reasons to believe that the inflation rate by the end of 1994 will drop to 10 percent. On balance, it would be more accurate to say that the inflation rate will stabilize at 10 percent by December than to say that the inflation rate will drop to 10 percent for the year.

## 4. Relationship Between Inflation and Unemployment and Possibility of Recession

One view holds that unemployment is to be feared more than inflation, for the former directly threatens political and social stability; therefore it is argued that a suitable degree of inflation can control any increase in unemployment. A contrary view contends that while the consequence or effect of inflation is certainly not any worse than that of unemployment, it is not possible to use the relationship of unemployment and inflation in the context of a mature market economic model to explain the problem in China. In the context of an economic model in which development is driven by market forces, fluctuations in the overall level of prices cause distortion in market information available to people who, because of this, would have no way to make any accurate judgment or decision, and that can lead to misallocation of resources resulting in inflation. If expanding the monetary supply is the method used to maintain high economic growth, the economy will certainly be mired in

stagnation and inflation. As seen in the West, this is precisely the reason for recession. Also, in terms of the relationship between inflation and economic growth, prior to 1986 it was a relationship of opposites, but after 1986, the two were moving in the same direction, which means that when the economy over-heats, the effects are beneficial for economic growth, but when the economy cools down, the effects are reversed, which is a special characteristic of "the beneficial effects of a rapid degree [of economic growth]." Therefore, the inflation question certainly cannot be treated lightly.

Another view states that both inflation and unemployment should be taken seriously, and care exercised to prevent recession and inflation from taking place. At present, the compound interest rate is as high as 10 to 15 percent, the hidden subsidy amounts to 400 billion yuan each year, but operating conditions of state-owned enterprises continue to be adverse; the possibility of recession, therefore, does exist.

## III. Major Contradictions in the Economy at Present

One view holds that the major contradiction at present is inflation, and that we should address it squarely, giving emphasis to development and growth. Comrades holding this view admitted that although the first quarter's inflation rate has reached double digits, growth of state-owned enterprises is slow and may even show negative growth; from this standpoint, the possibility of recession exists. They stressed that development is a firm principle, and even though development involves considerable difficulties, the consequences of non-development are worse. So long as inflation is still bearable, they maintained, we should emphasize development under appropriate conditions.

A second view states that the major contradiction is the structural problem, and whether the structural problems is in investment, consumption, production or the economy, a series of sharp contradictions exist. In the process of exercising macroeconomic coordination, structural coordination is much more important than quantitative coordination, and solving the latter problems does not mean that problems of structural coordination can also be easily solved; on the contrary, [improved] structural coordination can help maintain quantitative equilibrium.

A third view contends that the salient contradiction today is how to extricate state-owned enterprises from the difficult circumstances they find themselves, but as to what concrete steps to take for this purpose, there was definite divergence of views. At present, state-owned enterprises have only 7 percent in equity, no capital as a basis for growth, increasing amounts and expanding scope of debts; the enterprises have serious arrears and "triangular debts"; these, if not dealt with, would lead to considerable economic turbulence in the second quarter which may even affect social stability; this is one of the reasons for advocating that funding controls should be

relaxed for state-owned enterprises. Some of the comrades felt that with the industrial sector growing at 18.6 percent in the first quarter in which state-owned enterprises' growth is discounted by 2.2 percent, and all large and medium-size enterprises growing at 11 percent, this growth rate is not low. The difficult circumstances of state-owned enterprises are mainly seen in the medium-size and small enterprises, an under-performing sector in the national economy which has inherited certain structural problems (other profitable enterprises have since been bought out by joint ventures or merged). Therefore, they advocated providing suitable liquid capital to and solving the profit retention problem of state-owned enterprises to reduce the difficulties they are faced with. Nevertheless, some comrades felt that the difficulties of state-owned enterprises reflect in particular the problem of unemployment, and manpower use and disposition is at the base of the problem. At present, the national unemployment rate is 2.6 percent (not counting hidden unemployment and the effect of labor transfer from rural areas), the problem has reached a point where solution must be found. As to how to concretely support the labor force, two methods were suggested: one is "keeping an open door for employment," another is "taking care of surplus labor after closing the door." The former can be utilized in joint operation or merger and by transferring surplus labor to rural enterprises, and this helps solve the organizational problem in enterprise operation; the latter is closing the enterprise door, stopping production, and using subsidy (or hidden subsidy) toward building a social welfare system.

A fourth view holds that the most salient contradiction is between the Central government and regional authorities, manifested mainly in the Central treasury fiscal deficits, and macroeconomic control measures lacking in prestige or authority. This type of contradiction first showed up when regional fiscal authorities assumed responsibilities for revenue collection, and this system was locked in when the overheating economy "boiled over," and it was further strengthened by the financial and tax separation system reforms. When Central authorities issued directives to ban the disorderly raising of capital, making of loans and mergers, regional and local authorities took the "three no's" attitude (no support, no resistance and no knowledge of what is said). Therefore while the system is in transition, the tasks of changing the role and functions of government and strengthening the Central authorities' prestige in macroeconomic control have assumed greater importance.

#### IV. Objectives, Scope and Direction of Macroeconomic Policies

##### 1. Macroeconomic Objectives and Scope

One view holds that the macroeconomic objectives should be controlling both inflation and any changes in economic growth. Based on the original assumption, inflation will likely be higher than a 10 percent level and, if the rate must be pushed to below that level, economic

growth will suffer. Therefore, it was proposed that an internal control target be set up which, based on changes in the economy, will guide any appropriate corrective steps, proceeding scientifically and objectively to meet that target. As for the internal control target, some comrades considered that with commodity prices rising, and because rising prices follow certain ratio among themselves, if an internal control target were fixed, that would nullify any control, and the internal target would change into an external objective, and control would come to nothing.

A second view states that the emphasis should be on structural coordination, that is to say in exercising quantitative coordination, the focus should be on structural coordination. Solving structural problems is pressing; if further delayed, the problems would increase the difficulties for macroeconomic coordination and would require even greater input.

A third view states that in exercising macroeconomic coordination, we should not be satisfied with using averages. To assess the effect of inflation, we should not use as parameters the average income or benefit level, but should use the lowest income and benefit level as guide. To gauge the impact of inflation, we should determine not only its effect on income but also on people's psychology, and if the effect is extreme the consequences would be unpredictable.

A fourth view states that since inflation is mainly driven by high fixed costs, managing this type of inflation is relatively difficult as it contains symptoms of various economic contradictions. Macroeconomic coordination necessarily has to be aimed at multiple objectives, for example, unemployment and foreign exchange retention must be considered together particularly under condition of unequal income distribution.

As for the scope of macroeconomic measures, specialists and scholars at the symposium were relatively unanimous in their views. They all recommended that stable and even-handed macroeconomic measures be maintained, and relaxing of control is not advisable but neither is further tightening. The harms created by the easing of controls in September-November last year were very great, and the result was not a "soft landing" but the inflation "taking off" and not coming down but rising further, and if this were to be repeated this year, it would create the "half-cooked rice" [of economic recession].

At the same time, specialists and scholars at the symposium considered that in maintaining stable and even-handed macroeconomic measures, it is also necessary that these measures are coordinated and applied as a whole, and their combined effects aimed at deepening the reform, particularly in transforming the government's role and functions, and in financial and state-owned enterprise reforms. The latter two are closely linked. Reform of state-owned enterprises is slow and seriously stagnated, affecting the allocation of resources and improvement in productivity, and through the

credit rate problem linked to financial reform. For example, a widespread problem is the lack of liquidity in state-owned enterprises which are unable to pay the workers' wages; yet one can also see many state-owned enterprises becoming major stockholders in such and such corporations, which clearly shows the persistent problem of "interlinked lending" by passing the hard reality of financial illiquidity on to the government; this creates a tendency toward serious "maladjustment." Although neither theory nor symposium participants support the current interest rate situation, both agreed that the current interest rate is beneficial to financial reform and macroeconomic operation.

## 2. Direction of Macroeconomic Policies

There was relative unanimity that monetary and fiscal policies should be strengthened and applied separately, with monetary policy used to oversee the overall quantity of currency, the system for regulating loans and credit, and the fiscal management structure. In the last several years, monetary policy in fact has been used to police both quantitative supply and structure, because the series of debts resulting from deepening financial reform and monetization of the economy need not be repaid, but when the reforms are successful, monetary policy should not be used to control quantity and adjust structure at the same time. Therefore, in the short term, tight macroeconomic policies should be maintained; and in the intermediate term, the focus should be on solving the debt burden of the state-owned economic sector on the basis that enterprises should "first declare bankruptcy before debts are to be canceled."

## Discussion of Methods for Analyzing the Economy

In discussing the methods used for economic analysis, the relatively unanimous view held that analysis should differentiate the short-term versus the long-term; short-term analysis should provide the background for longer-term evaluation; at the same time, specialists and scholars at the symposium felt that different social levels, different government departments and different income levels all undoubtedly hold different attitudes toward analyses of economic conditions. There should therefore be an objective standard for economic analysis, and this standard means that under different circumstances, the benefits and costs of strengthening social welfare should be studied and analyzed.

At the same time, some comrades emphasized that more efforts should be made to explore and establish new methods of analysis. First, there is the need to speed up the statistical system reform to achieve international comparability, otherwise using economic analysis software from the West to analyze the Chinese economy would often lead to incorrect conclusions; second, objective judgment should be maintained in economic analysis, and short-, medium- and long-term economic projections should be analyzed in depth, and each cycle analyzed to provide cumulatively experimental evidence

to enhance in-depth understanding of the substance of the problem; the theorists circle should naturally and self-consciously strengthen the accumulation of theoretical explanations; and leading economic departments and organs in government should maintain an objective and impartial attitude toward the debates and differences of opinion in the circle of economic theorists.

## Ways To Transform Enterprises Operational Mechanism Adopted

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p 5

[Article by Zhang Haiqin]

[Text] As a result of numerous studies and experiments made nationwide, various ways of changing the operational mechanism of enterprises have emerged today. These can be summarized in theory in the following 10 methods:

### 1. Joint-stock Limited Company

A joint-stock limited company is a legal person of business whose entire registered capital is composed of shares of equal value, and which raises its capital by issuing shares or share certificates. A company of this nature can issue shares to the public; the shares are tradable and transferable. Its shareholders can be the state, legal people, individuals, or investors from outside the country's boundaries. To convert a state-owned enterprise to a joint-stock limited company, we first turn state assets into shares and then issue, simultaneously, legal-person shares to enterprises, public shares to individuals, and B shares to investors from outside the country's boundaries. This is an important way to reform state-owned enterprises in that it not only can help raise construction funds but also afford an effective way for the state to adjust gross volume and structural adjustment.

### 2. Limited-liability Company

A limited-liability company is a legal person of business whose capital comes from two or more shareholders, each of whom assumes a limited responsibility for the company in proportion to the portion of capital to which each shareholder subscribes. Its characteristics are that the company's entire assets are not divided into equal-value shares, that the company signs and gives to its shareholders certificates proving the portion of capital to which each of them subscribes, instead of issuing shares, and that the number of shareholders and the transfer of company shares are strictly restricted. The shareholders of a limited-liability company can be the state, legal people of business or institution, or natural people. The limited-liability company also is a major way of reforming state-owned enterprises.

### 3. In-house Employees Hold Shares

This method has been tested in Henan Shangqiu Wire and Cable Plant and other enterprises, and takes either

of the following forms: 1) Employees share purchase entitlement. Each and every employee must purchase a portion of shares as a prerequisite for employment. 2) Pairing shares. Twenty percent of collective assets is allotted to employees in the form of shares; employees purchase such shares on a voluntary basis and can only earn dividends without having the ultimate ownership. 3) Seniority shares. The amount of shares employees may purchase is tied to their length of service in the organization. The allotment of collective accumulation should tilt toward senior employees on the basis of seniority. 4) Auction shares. The portion of enterprise assets that cannot be allotted will become auction shares. Strictly speaking, employees share purchase entitlement is master entitlement. To be a master of something, you have to pay for it; you take out your money and buy shares, and then you become the real master. The significance of establishing seniority shares is twofold: first, it acknowledges senior employees' contribution, and second it offers a new type of pension for senior employees. Auction shares can reflect employees' evaluation of the enterprise.

#### 4. Free Gift With "Dowry"

This method has been implemented in some enterprises in Siping, Jilin Province, and Ningbo, Zhejiang Province. Enterprises with debts exceeding assets are simply "offered as a gift" to employees; the free gift of enterprises' assets also comes with a "dowry"; i.e., some preferential policies. In the case of enterprises that have long suffered losses and are surviving on banks' "loans of stability and unity," this method is more of sharing burdens with employees than giving them assets. The state then can stop its previous practice of endlessly providing loans and relief to such enterprises. However, once the burden is turned over to employees, it also means that the last chance is in their hands, too. This should thrust them into a fight for life or death and make them work to put the enterprises in the black.

#### 5. Wholesale Auction

This method has been tried in Quanzhou, Fujian Province, and other places. This is also called a "stop-bleeding treatment." Today many enterprises are borrowing and spending banks' money so, as if they were suffering from "hemorrhage," while turning more and more fixed assets into profit and distributing it. Auctioning off such enterprises once and for all can reduce the loss of state assets, thus stopping the hemorrhage. In so doing, we only convert the form of state assets from equipment to currency. The state can use such funds to set up new enterprises or build basic facilities.

#### 6. Grafting Foreign Capital

This method has been implemented in some enterprises in Wuhan, Hangzhou, and Dalian. For example, seeing Wuhan Second Printing and Dyeing Mill, a state-owned

enterprise, sustain severe losses after 1990, the government took action by inviting a foreign company in Hong Kong to inject 51 percent of shares into the plant and putting it entirely under the company's management. In managing the plant, the foreign company did the following: First, it reduced the number of employees. Second, it completely reformed the distribution system; remaining employees' wages were tripled or quadrupled, while dismissed workers each were given a half-year's worth of wages and were to be placed by the government and entitled to medical expense, wages, and bonuses. Third, it tightened the labor management system by setting up various regulations and procedures. After the takeover by the foreign company, the plant broke even in one month, began to make a profit in two months, and made up the past three years' losses in six months. In one year it earned back a plant. This method enabled a swift change of mechanisms, directly cut off enterprises' ties with the government, and let them operate under market rules.

#### 7. Empty Shell Leasing

This method has a two-tier legal person system, with the parent company as the first-tier legal person and retaining the shell of enterprises. The parent company has three responsibilities: First, it manages the assets. Second, it invites tenders, takes care of retired employees' well-being, pays taxes, collects management fees and public welfare fund, handles debts, disposes of idle assets, and prevents loopholes. Third, it takes care of services and coordination. Many variations of operation can be adopted under this method; enterprises can be leased, auctioned off, turned into joint-stock companies, or contracted out. For enterprises with debts exceeding assets, this method can be a way of survival. Such enterprises no longer can be called state assets but state debts. Normally, these enterprises should go into bankruptcy except that a large number of employees would be left without recourse. Under this method, existing enterprises are divided into two tiers of legal people, with the first-tier legal person taking care of debts and the second-tier legal person running the business, thereby enabling the second-tier legal person to do its job with a light load.

#### 8. Fixed Assets' Ownership and Usage Right Are Separated, and Liquid Assets Are Bought By Employees

The parent company takes charge of all the loans and debts, bears historical burdens, and leases fixed assets to employees to operate; the parent company retains the ownership, while lessees have the usage right, thus separating the ownership and usage right. Liquid assets are turned over to employees by way of redemption and the transfer of bank accounts, and, meanwhile, a joint-stock cooperation system takes place in the leased enterprise. The specific procedures for employees to buy liquid assets are as follows: Each employee is allotted 30,000 yuan worth of commodity funds, of which the first 10,000 yuan is bought by the employee with cash; the second 10,000 yuan is taken out as a loan from the

parent company, using the employee's status as security, and once the lease is up, the parent company will recall the loan in cash; and the third 10,000 yuan is taken out as a bank loan, using the employee's family property as security, and is transferred to the parent company by the bank. This method is more feasible in commercial enterprises. Under this method, fixed assets are still owned by the state; however, they do not take part in the new system as shares; rather they are given to employees to use through leasing. Therefore, fixed assets do not bring in dividends but fixed rents.

### 9. One Plant With Several Systems

The head plant implements different methods in its branch plants in accordance with their separate situations, such as leasing, grafting foreign capital, wholesale auction, severing "limbs" while retaining the main body, joint-stock operation, or implementing the management of foreign-funded enterprises. In short, it uses whatever method that can revive enterprises. This method is good for enterprises where the parent company and subordinate second-tier legal people are independent from each other in business and operation.

### 10. Converting Management Talents Into Shares

Top-level, highly-skilled experts, or even individual operators and private entrepreneurs are recruited to invest their knowledge, skills, management talents, and sales strategies as intangible assets, which are converted into a certain amount of shares and earn dividends accordingly.

## Provincial

### Heilongjiang Survey on Technology Usage

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in Chinese 22 Jul 94 p 2

[By correspondent Liu Shaowen (0491 1421 2429) in Gao Lijuan's (7559 7787 1227): "Survey of the Use of Technologies by Enterprises in Heilongjiang Province"]

[Text] In recent years, many people have discussed the emaciation of Heilongjiang's large and medium-sized enterprises and the lagging behind of town and township enterprises, trying to figure out what the causes of it all are. There are of course a great variety of causes, but we believe one of the causes that must not be overlooked is that they have not been able to establish close relations with the science and technology research institutes and are not fully utilizing the fruits of high technology for the benefit of their own development.

Heilongjiang Province has no less than a hundred scientific research institutes at its universities and colleges. It ranks sixth in the country in technological strength, and has been over the years among the first ten in the number of technical achievements. In 1993, agreements on 6,633 technological projects had been signed throughout the

province, and the amount involved in these transactions had reached 790 million yuan, which places the province in the front row throughout the country. In 1993, technological transactions in the provincial capital, Harbin, amounted to 365 million yuan, ranking it third among cities with provincial status. However, what is so deplorable is that so many of Heilongjiang's enterprises are inept at making use of so favorable a position; they are simply unable to take advantage of the technological superiorities available for the possible benefit of their own development, but, on the contrary, are causes for some rather "peculiar" phenomena.

In the early years of the 1990's, the cadmium-nickel storage battery invented by professor Wang Jisan [3769 4764 0005] of the Harbin Institute of Technology was an invention of an advanced international caliber, with good competitiveness in the market. The inventor made inquiries all over the place, but surprisingly could not find anyone in Heilongjiang who would cooperate with him in production. It was an enterprise in Jiangmen City, Guangdong Province, which, on hearing the news, immediately established contact, negotiated an agreement, provided 20 million yuan to build a factory, and with the cooperation of the inventor started production. As a result, 90 percent of the factory's production sold well abroad, and they earned in the same year a profit of over 20 million yuan, which certainly left some enterprises in Heilongjiang feeling sorry, but unfortunately too late.

However, with all their "regrets" they still do not seem to have "awakened"; and new and extremely similar mistakes are again and again being committed. In 1991, professor Wang Tao [3769 3447] of the Harbin Institute of Technology invented a "large-scale die-less cold compression equipment." This greatly improves the technique of manufacturing plugs for drums and boilers, which, in the past, had to be manufactured by the use of dies. Now they can be manufactured without dies in a "rolling out" technique, saving material and lowering costs. If this technology would have been used by Heilongjiang enterprises, it could have resulted in considerable economic benefits, but regrettably none of the many oil drum and boiler processing and using units showed any appreciation for this new technology. In October of 1992, it was an individual entrepreneur in Pudong-Shanghai who took it up for the price of 2.4 million yuan. He soon had built a factory and was manufacturing the item, and by April 1993, after only four months, he had made a profit of 1 million yuan.

Many enterprises abroad, located in the proximity of scientific research institutes, have taken full advantage of their favorable position, and have thereby rapidly developed. The more quick-acting Southerners seem to have also become well aware of that benefit. Wujin, a small county in Jiangsu Province, has surprisingly opened an office in Heilongjiang Province, and one of the primary tasks of that office is to contact the various larger scientific research institutes and to pick up the

best research achievements. This is in evident contrast to Heilongjiang enterprises, who are having things served right up to their doorsteps and still remain indifferent to them. An executive in a scientific research institute of Harbin Institute of Technology very sadly said: "Many of our enterprises 'squeeze' into the market only by always following behind someone else, but never by themselves seeking out their own markets. It is even more regrettable that they ignore the fact that new technologies can frequently open up highly profitable markets."

Is it really true that all enterprises ignore new technologies that frequently can open up most profitable markets? Not at all, as one leading cadre in a research institute said, quite a number of Heilongjiang enterprises come to look at new technologies, it is only that comparatively few conclude transactions, and the reason for not getting to transactions is that most of them have a wrong idea of the risks. Many of the technological achievements have been accomplished in laboratories, but have not yet been tried out in real applications, thus entailing a great risk in their actual use and production. That is the reason why many enterprises stop short of adopting them.

To get many more patented technologies to go into production, the research departments must adopt a method of making some concessions and then asking for cooperation: The enterprises should put up capital, equipment, manpower, and the research unit should put up the technology, for a joint development, profits of which are to be shared and the risks to be borne equally by both sides. This would undoubtedly be one good way, but it has not yet been possible to get it smoothly operating.

In 1992, the Provincial Center for Scientific and Technological Interchanges had a contract signed between party A and party B for the joint development of a chemical, azodiethylbutyronitrile, where party A put up the technology and a capital of 200,000 yuan, and party B put up the factory premises and the labor force. Production was started up quickly, and the factory was able to turn loss into profits, becoming an advanced "model." However, in the end, after party A had worked very hard, doing all the necessary legwork, party A not only did not get the 80,000 yuan profits stipulated in the contract, but also lost all its investment of 200,000 yuan.

Similarly, a certain university intended to undertake together with the weaving factory of a certain county the joint production of a pesticide protection bag. The contract stipulated: the university was to contribute the production technology, valued at 240,000 yuan, which the factory should reimburse in three annual installments, while all profits should go to the factory. Finally, the factory did very well, but claimed to have incurred losses; it paid the university only 80,000 yuan and until today still owes the remaining 160,000 yuan.

Happenings like these, enterprises violating their contracts and the scientific research units—"setting out

cheerfully and returning disappointed"—have repeatedly occurred in Heilongjiang Province. A certain Heilongjiang university turned over 197 technological projects with a contract value of 19.7 million yuan, but actually received in return only 12.9 million yuan. That left 6.8 million yuan—over one-third of the total—that simply could not be paid as stipulated in the contracts.

Even more appalling are the infringements of rights. Some enterprises lack the initiative for their own development and lack the concept of competition on the basis of equality. Unwilling to bear the risks but still eager for the benefits, they will frequently stake the fate of their enterprise on a wrongful and evil shortcut.

In 1993, the Design and Research Institute of the Liaohe Oil Exploration Bureau and the Mudanjiang Petroleum Machinery Plant brought a joint action against the Mudanjiang Well Drilling Machinery Plant. The two plaintiffs claimed that the plug-type quick-opening blind flange was designed by the Design and Research Institute, and had in 1989 received the patent as "new and useful." In 1992, the two plaintiffs signed an agreement for the utilization of the patent, the item to be manufactured and marketed only by the Petroleum Machinery Plant, while the defendant without authority manufactured and marketed the said patented product. The economics division of the intermediate people's court of Harbin, on verifying the facts, declared the defendant in violation of patent rights and sentenced the defendant to pay the plaintiffs 26,244 yuan in compensatory damages. It really was a case of "trying to steal a chicken only to end up losing the rice," as the saying goes.

Similarly, in 1994, senior engineer Yang Qingsen [2799 7230 2773] of the Electronic Computer Research Institute also filed a suit in the Harbin intermediate people's court, claiming that 11 units in Harbin had violated his state patent for an energy-saving device for gas furnaces.

A comrade of the economic division of the law court said, similar cases of infringements of rights are obviously on the increase.

The increasing number of contract violations and infringement of rights have had regrettable consequences: an enterprise may gain a temporary profit but lose its reputation forever. Many of the "bookworms" in the scientific research departments have too often had the experience of getting the worst of it and being cheated. If they now give out patented technologies, they do so with extreme care. Some will then just rather turn their attention to areas where a well-developed legal system governs the market.

The indifference in matters of market economy and the rather weak concept of the legal system are like a malignant tumor infesting the operational mechanism of our enterprises. They also make our enterprises again and again, quietly and unnoticed, lose their opportunities for development. As we constantly try by every possible method to find a remedy for the difficulties of

our enterprises, we must not forget that their difficulties are also due to their failure to establish close relations with the scientific research institutes, in order to use high and new technologies for their own development. It is really time to awaken to this fact.

### Shareholding System To Revitalize Jilin Economy

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[Article by Liu Xilin (0491 1585 2651): "Active Promotion of the Shareholding Cooperative System—Revitalizing the Urban and Rural Economy of Jilin Province"]

[Text] As the essential framework of the socialist market economy system has gradually been established, the focal point in deepening the reform and promoting further development has now become the further perfection of microeconomic activities and the effective solution of the enterprise problem. In the course of actual practice, enterprise reform has indeed effected a new breakthrough; the shareholding cooperative system has rapidly developed in recent years to become the new form of an enterprise system which is meeting the demands of market economy, and which is also well-attuned to the level of urban and rural economic development.

#### 1. Full Awareness of the Position and Role of the Shareholding Cooperative System Within Deepening the Reform and Promoting Development

Establishment of the socialist market economy system demands, objectively, that all enterprises, including those of the collective economy, must have a property rights system and organizational management system that suits the new situation. All must become commodity producers and traders, and subjects of market competition, that operate independently, are responsible for own profits and losses, pursue their own development, and exercise their own restraints.

The shareholding cooperative system is particularly suited to the needs of the development of socialist market economy and to the new enterprise system that is now emerging. It contains the special characteristics of two economic forms, the shareholding system and the cooperative system, each different from the other. It is on the one hand different from the standard shareholding system economy and on the other hand also different from the common cooperative economy. It has one side that conforms to the demands of the mechanism and principles of the shareholding system and has also one side that has the flexibility and versatility of the cooperative system. Its most important characteristic is the integration of labor cooperation and capital cooperation. This is concretely reflected in the following three aspects:

—In property rights relations. The shareholding cooperative system accomplished accumulation of capital and at the same time allows all staff and workers to

become shareholders, creating a unison of shareholders and staff and workers, and, on the basis of a clearly defined enterprise property rights relation, closely binds together the interests of the enterprise and the interests of the staff and workers, thus forming an interest mechanism of "one's loss is everyone's loss, one's merit is everyone's merit," and tying enterprise and staff and workers together in a bond of "united shares, united profits, united responsibilities, and a united ideology." It can well be said that this is the most obvious superiority of the shareholding cooperative system, as this will certainly arouse the enthusiasm of staff and workers.

—In organizing management. Enterprises on the shareholding cooperative system operate on a system in which the general shareholders meeting is combined with the general staff and workers meeting, with the result that the enterprises gain a very strong measure of autonomy in their business operations and at the same time a strong measure of the rights of democratic management, and the management mechanism is being shifted. Through the system of responsibilities at various levels—i.e. the general shareholders meeting (general staff and workers meeting), board of directors' meeting, and the shop and team organizations—external interferences are being reduced, and one-man decisions are replaced by collective checks and a division of labor in assumed responsibilities, which in turn improves the internal management situation in the enterprises. These have been precisely the difficulties that all our efforts over a long period of time have not been able to radically resolve.

—In income distribution. Enterprises on the shareholding cooperative system effect an integration of common ownership and ownership according to shares held, i.e. dividends are paid according to shares, while distribution is according to work performance and bonuses according to work performance (collective share bonuses and dividends), with simultaneous allocations to common accumulation. There is the possibility of earning profits, but at the same time responsibilities have to be assumed; there has to be assurance of income for shareholders and for staff and workers, and at the same time there has to be support for the development of the enterprise.

According to the overall strategic demands of the more developed borderland and coastal provinces, it is necessary for the economic invigoration of Jilin Province and for the acceleration of its development to not only effectively develop the state-owned large and medium-sized enterprises, but also to effectively develop the collective economy, the town and township enterprises, and the individual and private economy. This is a new point of economic growth, large in its scope and dimensions; it reflects, on the one hand, inherent potential and a store of vitality and, on the other hand, also an important point of support for the economic development of Jilin Province. Compared with the advanced

coastal regions, the pace of our development is slower, its level is low, the scope is small, and it is frequently only a matter of "small plants, small profits, small strikes, and small noise." In some collective enterprises the operational mechanisms are "suffering from congenital shortcomings," with rather fuzzy state of the property rights relations. The mechanism of some town and township enterprises has degenerated; they are hardly able to meet the demands of market competition. Many ward and street industries started out merely as a means to provide employment and have had only loose managements. The result is that most products of collective-owned enterprises are of low quality, have little economic strength, and lack competitiveness in the market. This situation can essentially only be changed by a revitalization of the enterprises through revitalization of the operational mechanism, so as to have this sector of the economy become capable of rapid development, of readjusting its product mix, of raising economic returns, and of strengthening its competitiveness in the market.

Judging by the special characteristics and developmental practice of the shareholding cooperative system, it is a blending of the superiorities of the shareholding system with those of the cooperative system. It clarifies the asset relations of the enterprises, and basically eliminates all fuzzy concepts as to the possession of assets. By integrating capital cooperation with labor cooperation, by integrating distribution according to work performance and dividends according to number of shares, the bonding of enterprise interests with staff and worker interests is greatly enhanced. By strengthening the organizational management of the enterprises, by shifting the decision-making mechanism in business operations, and by the accumulation of capital through share subscriptions, it promotes a rational movement of key elements of production and their optimal injection into the production process, induces enterprises to free themselves of external interference, and to become independent in business operations, with all attention directed to the market. In deepening the reform and promoting development, it is therefore necessary for the shareholding cooperative system to become, and it is indeed already becoming, the major form for the mechanism of the collective economy and of town and township enterprises, where it will engender new vitality and vigor. It will become the major way for the nongovernment medium and small-sized enterprises to resolve their problems, which had all along consisted in sluggish mechanisms, slow development, low efficiency, and insufficient logistic support.

## **2. Time is Ripe for Energetic Promotion of the Shareholding Cooperative System**

Emergence and development of the shareholding cooperative system in Jilin Province has followed on reform and opening up. The system has undergone a progression from spontaneity to conscious pursuit, from countryside to city, from new enterprises to the transformation of old enterprises, from industrial and commercial enterprises

to the areas of public health, science, and technology. It has gradually spread widely and has become standardized, and it has furthermore resulted in a great upsurge of developmental fervor.

During 1982 to 1990, it had been the masses at the basic level that had created this type of economic organization. While the phenomenon was still being explored in theory and practice, it remained at the experimental stage. During this period, almost one hundred enterprises were set up on the shareholding cooperative system throughout Jilin Province.

During 1990 to 1991, following the setting up by relevant state agencies of provisions governing rural shareholding cooperative enterprises, a rural shareholding cooperative economy gradually came into being in various localities, followed by a new phase of guidance by policy and a standardization of restraints. At that time, shareholding cooperative enterprises increased in one spurt to 400, 500 enterprises.

In 1992, after Comrade Deng Xiaoping's speech on his southern tour of inspection, the provincial party committee and the provincial government, in deepening the reform and accelerating development, made concrete demands on the shareholding cooperative system. In provincial documents, reference "Ji Zheng Fa" (92) No 31 and (93) No 42, the provincial government approved and issued to its subordinate agencies an "Opinion on the Tentative Initiation of the Shareholding Cooperative System Among Collective Enterprises" and an "Opinion on the Energetic Development of Town and Township Enterprises on the Shareholding Collective System." This started the phase of well-organized, well-planned, and well-directed development of the shareholding cooperative system. By the end of last year, after only two years, enterprises on the shareholding cooperative system had increased to over 4,700, and among these over 600 were in a comparatively well-standardized state. About 15 percent of these enterprises have had small profits and small losses before the reform of the system, and 5 percent of the enterprises had been close to bankruptcy. After instituting the shareholding system, 95 percent of the enterprises could no more be labeled "loss-ridden" enterprises, and most had regained full vitality.

This year, the provincial government called a province-wide meeting to exchange experiences gained with the shareholding cooperative system, also to review developmental experiences gained with the shareholding cooperative system, and to clarify some principles and criteria of the shareholding cooperative system, as well as to study what course to take for accelerated development throughout the entire province. Thereafter, the development of the shareholding cooperative system took off in an upsurge of fervor. By July, newly developed enterprises on the shareholding cooperative system throughout the province reached 1,610, with a total capital of 1 billion yuan.

As we see from their past development, enterprises on the shareholding cooperative system, have the following special characteristics:

1) The sphere of the shareholding cooperative system is rapidly widening. By their ownership system, there are state-owned small enterprises, enterprises of urban collectives, town and township enterprises, and individual-owned private enterprises. By their business operations, there are industrial, commercial, foreign trade, communications, agricultural, science and technology, public health, joint venture enterprises, and resource exploration enterprises. By the scale of their operations, they are from small enterprises to such of several persons, 10-odd persons, with a share capital of from several ten thousand to several hundred thousand yuan, even some enterprises with a large personnel of several hundred and capitals of several million yuan. By the state of their businesses, there are some with good economic returns and some that after turning over profits incur small losses, and also some of "doubly-suspended" operations, etc. Then there also appeared land trading on the shareholding cooperative system, which was quite a break with the pattern of one family, or one household operation under the contractual responsibility system linked to output, a fact which is highly significant for the deepening of the rural reform and for perfecting a double-level operational system with a combination of centralization and decentralization.

2) The crucial point in the shareholding cooperative system is in particular that it is being transferred from application merely in town and township enterprises to application in urban collective enterprises. Among the 610 enterprises on the shareholding cooperative system that had newly come into being this year, 513 are urban collective enterprises, which is 7.8 times the 65 enterprises that had come into being last year. Especially some among the "double-suspended" enterprises in some areas were able to reorganize their assets and to effect a shift in their system of operations; they rid themselves of some of their workshops and organized themselves into shareholding cooperative companies as independent legal persons, a fact which allowed the enterprises to overcome their difficulties and to turn losses into profit.

3) The development of the shareholding cooperative system is just now gradually becoming standardized. As the shareholding cooperative system is becoming a new form of enterprise organization to meet the demands of the socialist market economy, many problems still have to be standardized, starting out from the realities of the situation. In all its actual work, Jilin Province has firmly adhered to the principle of "one hand grasping development and one hand grasping standardization;" there has to be quantity, but quality is even more important. In the province, at various places, some supplementary policy documents have appeared, as, for instance, on the delimitation of property rights, on the number of shares, on distribution of income, on the assessment of assets, etc., which effectively promoted the healthy development of

the shareholding cooperative system. Most of the newly organized enterprises on the shareholding cooperative system are in a well-standardized shape.

4) The shareholding cooperative system has indeed become an important organizational component of our efforts to deepen the enterprise reform. The shifting of mechanisms and reform of the system in the state-owned large and medium-sized enterprises, and then also in the nongovernment medium and small-sized enterprises are two important sides of the present efforts to deepen the reform of enterprises. Although the proportion of enterprises is much larger, the shareholding cooperative system is a comparatively more rational and more realistic choice also for the collective economy, for town and township enterprises, for ward and street industries, for school-run industries, and for the rural cooperative economy on their joining the various markets. It is for this reason that the various localities include reform toward the shareholding cooperative system into the overall reform, and that they give attention to the effective implementation of supplementary policy measures for state-owned large and medium-sized enterprises, thereby promoting, as an overall undertaking, the reform of the property rights system of enterprises.

In brief, the shareholding cooperative system already possesses all preconditions to advance from the experimental stage to the stage of general extended application; it should be energetically promoted.

### **3. Careful Organization, Attention to Standardizations, Promoting Development, and Raising the Shareholding Cooperative System to a New Stage of Its Development**

Although the shareholding cooperative system has made great progress in Jilin Province, it is still, on the whole, in its initial stage. The area covered by it is not very large, and developments are uneven (in cities and prefectures with many, there are several hundred, in those with fewer, only 10-odd such enterprises). Many questions with regard to the developmental standards of the shareholding cooperative system itself still require further perfection and resolution. For instance, mechanisms for asset assessment are insufficiently organized, assessments are not sufficiently based on policy, there is too much interference by departments in administrative charge, enterprises have to bear too heavy a burden, etc. There is here still need for further active exploration to gradually provide solutions.

In promoting development, as also in deepening the reform, there is always the question of seizing a favorable opportunity that offers itself. To ensure realization of the objectives of gaining a new and higher level of economic development and of building up the borderland and coastal areas into flourishing provinces, we must not only continue to develop primarily the state-owned large and medium-sized enterprises, but also concentrate energy on the energetic promotion, on an even larger scale, of the shareholding cooperative system. We must overcome conventional practices and

stage an energetic drive to have the nongovernment medium and small-sized enterprises attain even greater vigor and vitality, thus giving impetus to even more rapid and more prosperous developments throughout the entire provincial economy.

1) Enhancing leadership, raising general awareness, effective planning. Governments at all levels must earnestly enhance their leadership in all efforts toward promotion of the shareholding cooperative system. All relevant agencies shall closely coordinate their activities, and must do a good job of rendering guidance toward development of the shareholding cooperative system. They must particularly implement in all earnest the spirit expressed in the series of documents issued by the provincial government concerning development of the shareholding cooperative economy in city and countryside. They must firmly and effectively take in hand the great undertaking of a healthy development of the shareholding cooperative system, regarding it as part of our efforts to deepen the reform of the enterprise property rights system and to revitalize the urban and rural economy of the province. According to the overall objectives and standard principles set forth by the province, every locality and every relevant government agency must study and formulate concrete development plans, and in these include as their objective the development of the shareholding cooperative system, so that it might be promoted in a serious and earnest manner.

2) We must firmly persist in effectively standardizing during development, and in effective development in the course of standardization. The shareholding cooperative system is a new form of enterprise organization, and as such might encounter many problems in the course of its development, such as problems of ideology, theory, law, and also problems of a policy character and problems in actual practice. Leaving these problems without adequate resolution may adversely affect the healthy development of the shareholding cooperative system. Speaking of the more remote perspective, the vitality of the shareholding cooperative system rests with its standardization; development and standardization are one unity and equally important. We must persist in development and standardization at the same time, seeking standardization in development and have standardization promote development. At present, care must be taken to firmly uphold the following two principles: First, whatever can be standardized must be standardized, policies and provision that are already clarified in documents, must be implemented as these documents demand. Present standardization will benefit better and faster development in the future. Second, as for problems that are not yet clarified in policy provisions, and that, temporarily, cannot yet be standardized, let there first be development. We must insist on the principle of taking everybody's interests into consideration, the principle of mutual benefit and reciprocity, equality and voluntariness, and of bringing about resolutions through negotiations. We must at the same time not wait and depend on others, but dare to explore, be courageous in

practice, and gradually by trial and error acquire experiences. In short, let us resolutely promote; we want quantity, we want quality, but there must be no disorderliness.

3) Mutual coordination of efforts, active support, energetic creation of an optimal external environment. As an enterprise system, the shareholding cooperative system touches on all kinds of fields, it requires broad support and coordinated efforts. All relevant fields, including industrial and commercial registration, registration for tax purposes, and assessment of assets, must actively render service to the enterprises. Aiming particularly at the weak link in the assessment of assets, there has to be an earnest and effective buildup of the assessment organization and of the assessment contingent, creating a capable and reliable asset assessment organization for the assessment of assets of collectives, a simplification of procedures, and a lowering of costs.

4) Effective training and doing a good job of spreading the general application of the shareholding cooperative system and its propagandistic education. In the course of promoting the shareholding cooperative system, special attention must be given to effectively mobilize to action through propaganda and to do a good job of training of personnel. At present, in the course of promoting the shareholding economic system, we still come across some fuzzy thinking, for instance, plant directors are afraid of losing their power, staff and workers are afraid of risks, government agencies in charge are afraid of losing control, etc. To counter these attitudes, we must make full use of all propaganda tools, such as broadcasts, television, newspapers and periodicals, etc. to propagandize and promote the objective and significance of the shareholding cooperative system, clearly explaining the reasons for it, and fully explaining its advantages. We must widely spread knowledge of the shareholding cooperative system, raise awareness of the shareholding system, and exert efforts to make it a common knowledge throughout society. Attention must be paid to the professional training of a core contingent, so there will be no question about "capability of doing things" and "doing things well." There has to be created throughout the province, among high and low, a core contingent possessed of a certain theoretical and professional knowledge.

5) Attention to the review of experiences in actual practice, formulating policy, promoting faster and a more healthy development of the shareholding cooperative system. Promoting the shareholding cooperative system is an altogether new task; there are no fixed models to follow. It requires active exploration in actual practice, accumulation of experiences, and it makes it even more necessary to be creative in one's work, starting out from the realities of the situation. In the performance of concrete work, we must not merely pursue quantity, but give even more attention to quality, and must do our very best in the work of standardization. In the development of the shareholding cooperative

system, we must lay out tracks to follow, pay attention to the disclosure of good experiences and good methods, and review model cases, thereby to give new impulses to the overall situation. We must also in good time study some specific policies and guidance principles for our task as a whole, promote a more intensive standardization of this new form of enterprise system, the shareholding cooperative system, make it more perfect and scientifically rational, and cause it to advance in its development in a serious and earnest manner.

### Finance, Banking

#### Article Explores 'Sinking Fund' Models

94CE0665A Hong Kong TANGTAI

[CONTEMPORARY] in Chinese No 40, 15 Jul 94

[Article by Tsung Hui-min (1350 1920 3046): "China Seeks New Ways To Deal With Debt Repayment Peak Period. Sets Up Foreign Debt Sinking Fund. Experiences of Guangzhou, Guangdong, and Henan Show the Way"]

[Text] Editor's Note: With reform and opening of its economy to the outside world, China's use of foreign capital has gradually expanded. Now, China is about to enter a four to six-year peak period of debt repayment. Recently the author of this article visited Guangzhou, Guangdong Province, and Henan Province (hereinafter referred to as the two provinces and one city) to make an on-the-spot survey of the experiences, conflicts, and problems that debtors face in setting up sinking funds to get through the peak period of debt repayment. These observations appear below.

China is currently practicing a "window toward the outside world" system in handling its foreign debt. This means that ordinarily project units may not deal directly with foreign creditors about borrowing and lending money. Instead, they have to go through either a financial institution or a functional government agency. In actual operation, the intermediary generally requires the local planning commissions to vouch for the project unit. When vouching for a project, financial institutions also require local planning commissions to produce counter pledges. Thus, debt repayment risk actually devolves upon local planning commissions.

#### Establishment and Administration of Sinking Funds

The goal of local jurisdictions in establishing sinking funds is to give governments (represented by planning commissions) control over a number of special purpose funds that can serve as relatively steady sources of foreign exchange for the repayment of debts. This improves the government's ability to even out surpluses and shortages and to enhance the overall debt repayment capabilities of each province or city so as to protect the borrowing integrity of each province or city.

#### Guangzhou's Sinking Fund in Operation Since 1987

The two provinces and one city will enter the peak debt repayment period in 1991 and 1992 respectively. However, they began to think about setting up a sinking fund

back in the late 1980s. Furthermore, they began to act two or three years before the arrival of the peak debt repayment period. For example, Guangdong's and Guangzhou's sinking funds began formal operation in 1987 and 1989, 2 and 3 years before their peak debt repayment period. In 1988, Henan Province began to draw up debt repayment plans that required every jurisdiction and every government department to formulate plans for balancing funds to enable debt repayment. Sinking funds were set up in 1990, one year in advance of the peak debt repayment period.

#### Users of Foreign Exchange and Those Who Benefit to Repay Indebtedness

One source of money for sinking funds may be foreign exchange reserves, or withholding a portion of the foreign exchange earned each year from trade or other than trade that local governments retain, which is neither distributed nor used in current year regular projects. An alternative is the withholding of a portion of the retained gold and foreign exchange collected each year (as Henan does). Still another possibility is the withholding of a portion of foreign exchange intended for provinces importation of technology (as Guangdong does). Another source of sinking fund money is renminbi capital, using a portion of the public funds that have been raised (or even bank loans) as an advance payment for foreign exchange transferred by the Foreign Exchange Administration, and for the purchase of some foreign exchange on the swap market. An alternative is to charge a fee for the use of foreign exchange to accumulate some renminbi. A third source is to exercise the principle that those who use foreign exchange and benefit from foreign exchange shall repay the indebtedness, withholding a different percentage of foreign exchange and renminbi from the returns on investment of each project unit, the percentage depending on the loan period and the amount of the loan. Alternatively, a certain percentage of the security deposit that local financial institutions collect may be withheld (as Guangzhou does).

Just how large should sinking funds be? Generally speaking, the amount of money collected in a sinking fund should be a percentage based on the foreign debt burden of each jurisdiction, its fiscal revenues, and its economic development. If the sinking fund is too large, not only will it be impossible to find the money to sustain it, but the temporarily unusable idle funds in it will impede financing. At the present time, Guangdong Province's sinking fund is 6.9 percent of the foreign debt balance outstanding. Henan Province maintains its sinking fund at the 6 percent level.

#### Financial Assistance for Emergencies Not for Perennial Needs, and Use for Value

The principle to be followed in the use of sinking funds is as follows: "First, such funds should provide financial

assistance to meet emergency needs not to satisfy perennial needs." This means providing support only for projects facing temporary debt repayment difficulties or projects that are temporarily insolvent. Other means, such as introducing the stock share system or providing a certain amount of public funds support should be used to solve the repayment needs of projects that simply do not have the means to repay. Second is application of the use-for-value principle, meaning lending money to project units at a certain interest rate, and setting a repayment period. The sinking funds in which all project units pay money belong to the project units. Only after payment of the final foreign debt principal and interest may they be liquidated and closed out.

Management of sinking funds may take one of two forms. One is that use of project funds must be examined and approved by the Planning Commission, the local International Trust Investment Corporation exercising control. Since this method permits the local International Trust Investment Corporation to re-lend money in the sinking fund, it increases the value of the sinking fund. However, inability to recover loans promptly may impair ability to withdraw funds for debt repayment. In the other form, use of the sinking fund requires approval from the provincial foreign exchange administration, the planning commission being responsible for professional management. The planning commission deposits the sinking fund in the provincial branch of the Bank of China, the branch calculating interest at the favorable interbank call loan interest rate, and taking responsibility for making on-time withholdings. This form helps ensure timely withholdings for the sinking fund, but it does not do much to increase the value of the sinking fund.

## 2. Problems in the Operation of the Sinking Funded

Since each of the two provinces and one city set up their sinking funds in advance of their individual peak debt repayment periods, these funds have played a positive role when the peak debt repayment period rolled around. However, numerous concrete problems exist in the implementation process making actual operation of the sinking fund extremely difficult.

First of all, finding sources of foreign exchange and renminbi for the sinking fund tends to be difficult.

Reform of the foreign trade administrative system has resulted in increasing autonomy in foreign trade, and enterprises becoming responsible for their own profits and losses. Foreign trade corporations have quickly turned losses into profits, and the percentage of foreign exchange taken by the government has gradually decreased. Take Henan Province, for example, where prior to foreign trade system reform, the government and enterprises each retained 12.5 percent of foreign exchange earnings. Since reform, government foreign exchange retention has declined to 10 percent, but enterprises having no self-directed export authority ended up having no foreign exchange retention. Forty percent of

foreign exchange earnings are concentrated in the hands of the foreign trade corporations (most foreign exchange corporations have no foreign debt burden), so the province is rather hard put to control the balance between foreign exchange requirements and needs. Because of the fairly rapid increase since the second half of 1992 in the amount of foreign exchange needed for imports, and because every jurisdiction is gradually approaching a peak period for debt repayment, the demand for foreign exchange has increased greatly. Meanwhile, the supply of foreign exchange has decreased as a result of the devaluation of the renminbi and people's expectation of more inflation. A scarcity of foreign exchange exists. Swap markets have become sellers markets. In Henan Province, for example, even at the high price of more than 9 yuan renminbi to a dollar, there are no sellers.

## Inflation Makes Foreign Exchange Markets Sellers Markets

Banks, business concerns, and treasuries have a renminbi shortage. Real estate speculation has tied up large sums of money, and the "triangular debt" problem among business concerns has lasted a long time without solution, requiring an infusion of more money to make funds turn over. Export tax rebates have been changed. Nowadays, one can obtain a tax rebate only upon presentation of a foreign exchange settlement tax receipt. Thus, tax rebates take a long time to obtain. Reform of enterprises' operating mechanisms has led to a decline in government revenues. In addition, since it is largely projects that have either no exports or insufficient foreign exchange returns from exports to repay debts that have made foreign loans, these projects must turn to the foreign exchange swap market to get the foreign exchange needed to repay their debts. However, the tremendous devaluation of the renminbi has produced a rapid escalation of swap market foreign exchange costs, which increases the demand for renminbi. All these reasons account for the extreme shortage of sources of renminbi for sinking funds.

Second, since the task of setting up sinking funds in the two provinces and one city is still in the early exploratory stage, some problems exist in the way the funds work. One example is very great difficulties in actually withholding the calculated amount of money required for the sinking funds as project size requires. During the construction period and the debt repayment period, foreign loan projects have a severe funds shortage; thus the calculated percentage of withholdings for a sinking fund should not be high. Consequently the amount of money that project units can raise for sinking funds is limited. In a majority of cases, little remains in a sinking fund to solve the repayment problems that occur in a large project. Moreover, the amount to be raised for a sinking fund is often not collected for one reason or another.

## 3. Policy Orientation and Recommendations

The actual way in which sinking funds work in the two provinces and one city shows that debt repayment to be

the weakest link in the making of foreign loans. This link needs strengthening. We have the following recommendations to make about the findings of this comprehensive survey and study:

#### Numerous Firms Shift Internal Debt to External Debt

1. Sinking funds should not be the main way of solving foreign debt repayment problems. Since China is in an industrial development stage in which the microeconomic limitation mechanism is not well established, clashes over which enterprises to invest in are extremely pronounced, and responsibility for taking investment risks is lacking. This survey and study showed firms have a strong sense of responsibility about foreign debt repayment, but that their sense of responsibility about internal debt repayment is relatively weak. Many enterprises make domestic foreign exchange loans or they make renminbi loans that they swap for foreign exchange to repay foreign debts, thereby converting foreign debts into domestic debts. Then they delay payment of these domestic debts. Some enterprises that are in arrears in loan repayment even continue to try to expand the amount of capital construction.

Therefore, introduction of a market competition mechanism, and setting up of a payment-for-value equity system that truly results in survival of the fittest, thereby enabling both government and enterprises to solve together the dual problems of deciding where investment should be made and the amount of investment as well as the problems of advance project validation and making sure money is available are the only fundamental ways to solve the foreign debt repayment problem.

2. As was said earlier, it is largely the projects that do not earn foreign exchange from exports, or that do not earn enough foreign exchange from exports to repay foreign exchange debts that are the projects owing foreign debt in every jurisdiction. These projects must turn to swap markets for the foreign exchange they need for debt repayment. However, the foreign exchange swap markets are not mature, and reform of the foreign trade system is still underway, so the foreign exchange swap markets do not operate very smoothly. Furthermore, after more than a decade of contracting foreign debt, the governments of every jurisdiction are obligated to raise foreign exchange to pay for one project or another (such as infrastructure). Therefore, establishment of a two-tier local government and central government sinking fund that gives governments access to foreign exchange that can be used to repay debts is very much needed at the present time.

#### Suitable Reduction of Foreign Trade Corporation Foreign Exchange Holdings

3. Once the foreign trade administrative system has been reformed, the percentage of foreign exchange that provinces and cities retain will decline. Most foreign exchange will be concentrated in the hands of the foreign trade corporations. Thus, macroeconomic regulation and control will become difficult. However, the foreign

trade corporations usually have no foreign debt burdens. Possibly, the percentage of foreign exchange that the foreign trade corporations retain might be reduced, and the foreign exchange retention of provinces and cities increased to enhance local governments' ability to raise funds for debt repayment.

4. In finding sources of money for sinking funds, many problems exist in the form of calculating the amount of sinking fund withholdings for projects of various sizes. This reduces tax revenues, and increases investment costs. When it impinges on too wide an area, it becomes undesirable. It is preferable for governments to retain some foreign exchange each year, and for government treasuries to obligate some funds to set up sinking funds.

#### Liu Guoguang Views Interest Rate Adjustment

94CE0634A Beijing JINGJIXUE DONGTAI  
[ECONOMIC DYNAMICS] in Chinese No 6, 18 Jun 94  
pp 13-15

[Article by reporter Zhan Xiaohong (6124 1420 3163): "Adjust Interest Rates with Same Courage in Carrying Out Exchange Rate Review—Special Interview with Well-Known Economist Professor Liu Guoguang"—First paragraph is an editor's note]

[Text] Inflation has once again become the hottest economic issue for the general public at present. Either heads of the macro-economic control department or economists are all racking their brains to try to keep inflation under control. However, we hope that this interview will help the large number of readers who cherish our magazine deepen their understanding of the current issue of inflation. Henceforth, our magazine will continue to interview some people concerning some economic theories and hot economic issues and publish such interviews for our readers.

[Reporter] Professor Liu, will you please dwell upon the current macroeconomic situation?

[Liu] All right. Good results have been attained since we had strengthened the macroeconomic control during the second half of 1993. Signs of economic overheating and chaos in the financial order have been corrected to a certain extent, and the rate of economic growth has somewhat declined. The growth rates of various economic indices such as the domestic production output value, the total industrial output value and the total amount of investments in fixed assets during the first quarter of 1994 were somewhat lower than these in the same period of 1993. However, the only thing that refuses to decline is commodity price. The general retail price in the first quarter this year rose 20.1 percent over the same period of last year. People hold different views on the current macroeconomic situation. Some people believe that inflation is not a major issue while unemployment is one. That means that enterprises are faced with difficulties right now and the supply of money is tight. Some enterprises have suspended production or

only operated at half capacity. Some people call this current situation stagflation and that the present danger is "stagnation," not "inflation." I disagree with this kind of view. The growth rate of several major economic indices declined as compared with the same period of last year, but this rate is still quite high. Production and construction projects are still developing vigorously in certain fields. For example, A number of major construction projects are still in full swing. Naturally there is indeed an issue of overcapacity in production in certain aspects, and in some localities the issue of chain debts has once again cropped up. Enterprises are actually faced with some difficulties. Nevertheless we cannot say on the basis of all this that the current major economic problem is stagflation. The inflation rate has already reached 20 percent now. I believe that our major issue right now is how to keep inflation under control. Our original targets for exercising macro-economic control are that we must decrease our economic growth rate from 13 percent to 9 percent and the inflation rate from 13 percent to 10 percent or below. As seen from the present situation, we may possibly make a breakthrough in fulfilling two targets. It is not easy to achieve our set goal in exercising macroeconomic control. However, it is not so good if we overfulfill our targets excessively, because it is not so healthy to keep our national economy strained and subject ourselves to the daily increasing inflationary pressure at all times. Therefore, we must adopt more measures and exert even greater efforts in exercising macroeconomic control. Right now, the government also pays great attention to the issue of inflation. It has also taken many measures such as the development of agricultural production, particularly the shopping basket project, the control of prices for grain, cotton and edible oil and the establishment of a system to conduct major price check-ups. In addition, it has also controlled the scale of investments in fixed assets and the credit line. However, once credit is tightened, there will be a shortage of circulating funds, and the local authorities and enterprises would immediately cry for help, saying that they cannot stand any more. They would call for efforts to loosen the money supply. However, the rate of inflation is so high that it is impossible to ease the money policy. Therefore, the issue of circulating funds is a major one. The measure we use right now is still to control credits and use administrative means to allocate credits.

[Reporter] Economists have made relatively sharp criticisms on the allocation of credits. For example, Prof. Wu Jianlian, Prof. Zhang Zhuoyuan and Prof. Liu Zuni, an American economist of Chinese descent proposed the use of interest rates to regulate the needs for funds and fight inflation. I remember that as early as in 1988, you had the same idea. Now what is your view on the relation between the current inflation and the interest rates?

[Liu] I was about to discuss this issue. It is actually difficult to use the credit line to control the investment scale, because there are many ways to obtain loans right now. For example, a great deal of money which charges

borrowers high interests is available on the black market in the form of call loans, while the official interest rates set by the bank are relatively low. This creates a situation whereas on the one side, money is in short supply, while on the other side funds are being wasted. Due to the fact that demand for money exceeds supply, those who fail to obtain loans have no choice but to seek help from the underground money market where the interest rates are 18 percent, 20 percent, 25 percent or even 30 percent. Yes, I made the proposal you just mentioned as early as in 1988. Right now, I still advocate the use of interest rates to control inflation. I quite agree with the proposal made by the those several scholars whom you just mentioned. China had raised interest rates twice last year, but the adjustment of interest rates was not so large. Right now the inflation rate is so high, while interest rates have not been adjusted. The negative interest rate has already reached 10 percent. This negative rate is irrational. Originally we are short of money. Low interest rates mean that the price for money is low, although money is in short supply. This undoubtedly will exacerbate the situation of a money shortage. Originally the price of things in short supply should be high so as to avoid excessive demand for such things. Low interest rates encourage more people to borrow money. Borrowing money at a negative interest rate itself means costless moneymaking. Low or negative interest rates inspire some people to use the difference between the official interest rate and the market interest rate to engage in malpractice. From this, we can see that low interest rates encourage people to look for loopholes, and that they become one of the major sources for corruption. In addition, low interest rates aggravate the demand for funds and thus exacerbate inflation. Therefore, to adjust interest rates according to market supply and demand is something that we must carry out.

[Reporter] Another thinking prevails. It is believed that the method of using interest rates to control inflation is insignificant at a time when egalitarian treatments are given to all enterprises formed under the traditional planned economic conditions. State-owned enterprises do not care much about high interest rates. Particularly a number of local governments care little about raising interest rates. Thus, to adjust interest rates according to market supply and demand will have little impact on curbing inflation. What do you think?

[Liu] Those who believe that interest rates have little or no effect on the economy and that the economy will not react to the adjustment of interest rates cannot hold their ground. (1) Enterprises less sensitive to interest rates are mainly state-owned enterprises. Those eating from the same big pot are mainly the state-owned sectors. However, the share of the state-owned sectors is decreasing in our national economy. They only account for 48 percent of the total industrial output value and 40 percent of our GNP. Meanwhile, economic sectors which are not owned by the state are increasing their share in the national economy. They are sensitive to the adjustment of interest rates. Therefore, the adjustment of interest

rates will affect the entire economy. (2) The state-owned economic sectors themselves are undergoing reform. Those enterprises which have reformed themselves well, separated government functions from business management, truly assumed the responsibility for their own profits and losses and implemented the corporate or shareholding system are also relatively sensitive to the adjustment of interest rates. How can you say that they care little about interest rates? (3) Raising interest rates will benefit the residents. If the period in which negative interest rates lasts too long or they are too high, people will not try to save their money. They would even squeeze the bank. This situation happened in 1988 and also in 1993. On the contrary, we had prevented residents from squeezing the bank and stopped bank deposits from dropping, after we had timely raised our interest rates twice in the past. It shows that China's experience in carrying out reform also proves that interest rates have an impact on our national economy.

[Reporter] The adjustment of interest rates has not been regarded as an important means in dealing with inflation. Is it possible that considerations are being made to the fact that enterprises will be faced with more difficulties after interest rates are raised. When interest rates are raised, production costs will become higher. Enterprises cannot stand and would inevitably scream "too much, too much."

[Liu] This view is entirely opposite to the previous one. The previous one is a theory of caring little about interest rates, while this one is a theory of caring a great deal about interest rates. Both of them are groundless. (1) Not all enterprises and all projects cannot endure market interest rates. Actually a considerable number of enterprises can bear them. They can afford to borrow money at the market interest rate which is higher than the official interest rate. This is an objective reality. Otherwise, how can we explain that people dare to obtain loans on the market, which charge them 30 percent interest. Speculators who illegally buy and sell stocks and land are even willing to pay higher interest rates. Here, we are not going to talk about them. (2) There are indeed some projects and enterprises which cannot stand high interest rates. However, these projects and enterprises are what the state badly needs. We must vigorously support and protect them. Many of their difficulties are caused by objective reasons. For example, their profits for many years in the past have been taken away by the state. Thus, they have no money to carry out technical innovations. The state should extend discount interest loans, or the Investment Bank or and the State Development Bank should use policy-related loans to help these enterprises overcome their difficulties caused by the high interest rates after interest rates are raised. It is necessary to handle specific conditions with specific measures. We must not use low interest or negative interest rates to support those enterprises with exceptional difficulties. We must be selective in implementing our policy. (3) As for those businesses of general trade of a competitive

nature, the interest rates for their loans should be determined by the market. Profitable enterprises naturally can stand the market interest rates. If less profitable enterprises cannot afford to pay the market interest rates, they may have to improve their technologies and management and adjust their product mix. Otherwise, they cannot survive and will have to go bankrupt. This is called the survival of the fittest! In developing the market economy, some enterprises survive while others collapse. The new supersedes the old without end. Only in this way can vitality be maintained and efficiency be improved in developing our economy. In the course of developing market economy, we should not protect the backward. We cannot use low or negative interest rates in support of those enterprises with low economic efficiency. Naturally the government should help enterprises which have declared bankruptcy to take care of laid-off workers and quicken its pace in building the social security system. On what do the negative interest rates rely to keep themselves alive? They rely on the devaluation of the depositors' savings to support the negative interest rates. Negative interest rates actually constitute a form of exploitation of the large number of depositors. When inflation swells, speculators can reap staggering profits by borrowing money, while the money which the ordinary people have painstakingly saved is being devaluated. This phenomenon does not tally with the theory of treating all the people on an equal basis. Nor does it conform with the principle of efficiency. This kind of interest rate mechanism does not accord with ideals of socialism. Nor does it meet the requirements in the development of market economy.

[Reporter] Other people say that "Two-digit inflation is nothing serious. Two-digit growth rate is something that we really enjoy." They also believe that inflation will not affect wage-earners much, because they can use the method of linking their wages with price—the wage index system—to offset the impact of the inflation. What do you think about their idea?

[Liu] The system of wage index? However, you cannot increase the amount of your saving deposits according to the index! Your savings are being devaluated under the pressure of inflation. Furthermore, wage index is not going to cover the entire society. It always lags behind the inflation rate. There is no inevitable connection between high growth rate and high inflation rate. The method to use inflation to stimulate economic growth is absolutely unacceptable. Now I dwell upon the following question everywhere I go: We must insure that interest rates genuinely reflect the supply and demand of funds; and use interest rates as a weapon to fight inflation. Interest rates must be adjusted according to market supply and demand. Naturally we must have a procedure to achieve this goal. Only by going through a gradual process can the measure of controlling loans by adjusting credit limits be changed to one of using market interest rates to regulate the supply and demand of funds. Just like the reform of exchange rates, the Renminbi did not achieve its goal of free convertibility at one stroke.

However, we have made a giant stride in merging the exchange rates after all. When we reformed the exchange rates last year, we also assumed certain risks. Nevertheless we went through with it, and the results are not so bad. We must also assume some risks in reforming interest rates, but we should work even harder to emancipate our thinking and carry out our interest rate reform with the same courage as we demonstrated in reforming the exchange rates. Naturally we cannot fight inflation by raising interest rates alone. There are other measures which can be used such as the control of money supply by the central bank, open market operations, the capital reserve system and even the price control. The issue of interest rate reform involves both development and reform, because the use of interest rates is an important means in insuring the steady development of the macroeconomy. Moreover, in carrying out reform, we must gradually change our method from the use of direct administrative means to the use of indirect means to regulate the macroeconomy. In a financial term, an important indirect economic means is the use of interest rates.

#### Enterprise Reorganization Creates Tax Problems

94CE0705A Beijing ZHONGGUO SHUIWU BAO  
in Chinese 6 Aug 94 p 3

[Article by Sun Guiwei (1327 2710 0251): "Tax Problems Encountered in Reforming Our Enterprise Property Rights System"]

[Text] While reform of our property rights system, aimed at establishing a modern enterprise system with distinct property rights, explicit rights and responsibilities, business management separate from government administration, and scientific management, has certainly injected new vitality into many enterprises, reforming our enterprise property rights system is a complex task, meaning that conscientious study and exploration of the particular conflicts and real problems encountered in the course of enterprise system reform, as well as dealing with them properly through practice, are key guarantees of smooth progress in property rights reform. I am discussing views on only the relevant tax problems run into in reforming our property rights system, to bring them to the attention of the concerned departments.

1. Certain enterprises are exploiting property rights reform, by doing all possible to bypass their "tax arrears" burden, leaving large amounts of "outstanding taxes" "shelved" and without a carrier. This quite glaring problem needs to be paid full attention. It can be seen in detail as: 1) Divorced operations. To escape their problems, some poorly run enterprises that are heavily in debt and owe many taxes dodge their creditors and dun their debtors, escaping by cunning maneuvering. Based on their former enterprises, they change their corporate representative and name, leaving all of their former debts, including "tax arrears," to old enterprises that exist in name only, while the new enterprises take over

the assets without paying the debts, leaving the "outstanding taxes" hard to clear up, and tax sources virtually eroded; 2) Mergers and associations [takeovers]. Some more efficient enterprises take over enterprises that are smaller or less efficient, taking on only their assets, but none or only some of their liabilities, not acknowledging the outstanding taxes, fees, and funds of the taken over enterprises, and leaving these "tax arrears" unrecoverable; 3) "Public ownership, but private operation." Certain "decentralized, small, insignificant, and losing" publicly owned enterprises adopt the contract leasing form to become "publicly owned but privately operated." Then despite improvements, their new officers ignore the old accounts, leaving former "tax arrears" still not assured. Such cases are numerous.

Since all such methods create quite a lot of problems for the tax management, particularly the outstanding-tax management, of reorganized enterprises, we need to take conscientious and effective steps to stop the loss of state tax revenue. I hold that: 1) We need to make our enterprise tax-collection management more forceful, strictly enforcing the "Tax-Collection Management Law" to keep tax arrears from occurring, to essentially resolve the issue of leftover "outstanding taxes" after enterprises reorganize; 2) Tax departments need to play an active role in enterprise property rights reform, overseeing enterprises more closely, to promptly discover enterprise violations of tax-law provisions in the course of property rights reform, so that they can deal with them quickly; 3) We need to strive for the support of local Party and Government departments, strengthening ties with the judicial sector, acting in accordance with the law, and handling matters properly, to ensure that outstanding taxes are cleared up promptly.

2. In the particular operations of enterprise property rights reform, not considering pertinent tax matters creates problems for future enterprise tax-collection management. This can be seen in detail in that: 1) When setting bidding bases, future tax payments are not set as "mandatory" items. Bidding-base calculations need to take into account the interests of all parties, such as the state, collectives, employees, and tenants, to fully reflect the principle of "ensuring the state's and paying the collective's, with all of the rest being one's own." So when setting bidding bases, in addition to setting them based on factors in many areas, such as enterprise fixed and liquid assets, production operating efficiency in recent years, enterprise growth prospects, and geographic location, an indispensable point is the need to list in overall considerations future enterprise tax-payment mandates, and then to make realistic settings. Tax-payment mandates could be set after choosing a certain reference year's real tax growth percentage, combined with calculations and comparisons of factors, such as trade conditions, enterprise growth prospects, and tax liabilities; 2) When determining winning bids, we often unilaterally emphasize investigation in areas, such as

operating might, operating setting, operating management and organizational leadership capability, and business technique, at the expense of quality checks in areas, such as observing law and discipline, and paying taxes in accordance with law. I hold that we need to use means, such as open and competitive bidding, equal competition, public appraisal, and organizational checking, to conscientiously choose able persons with both ability and political merit, outstanding capabilities in all areas, and the ability to pay taxes in accordance with law, for such important posts.

3. Once enterprises reform their property rights system, tax departments find it harder to collect taxes from reorganized enterprises, which is in urgent need of study and resolution. 1) The financial-oversight management role of tax departments in reorganized enterprises is weakened. Taking for instance circulation enterprises that practice "dual-level operations, with counter-organization contracting," counter-organization contractors, except for being subject to business management in indispensable areas, such as regular full tax, fee, and profit payments and personnel management, are completely independent as to operating actions, leaving their reports sent to enterprise financial accounting departments on accounts, certification, and forms often not reflecting their true operating substance, making it hard for enterprise financial accounting departments to oversee the economic actions of contract counter-organizations, so leaving them disinclined to do so, and leaving tax departments even more obviously incapable of overseeing their financial management, despite their desire to do so; 2) Once certain reorganized enterprises are turned over to private operation, tax evasion becomes more severe. Most reorganized enterprises do not keep accurate or complete accounts, making it hard for tax agencies to accurately assess the taxes they should pay. In light of this: 1) We need to better publicize the new tax laws to reorganized enterprises, to raise their sense of self-awareness and honor about paying taxes in accordance with law; 2) We need to further tighten our financial oversight of reorganized enterprises, working with enterprise responsible departments to supervise their accounting systems and standardize their operating actions; 3) We need to enforce the law strictly, acting in accordance with the "Tax-Collection Management Law" and new tax legislation to thoroughly and carefully investigate production, supply, and marketing conditions and, premised on ensuring that tax payments increase steadily, selecting realistic and feasible methods to assess the taxes that should be paid, to ensure that taxes are promptly and fully collected.

#### **Macroeconomic Regulation, Control for 1993 Evaluated**

##### **Outlook Good**

94CE0675A Beijing JINRONG SHIBAO in Chinese  
21 Jul 94 p 1

[Article by Correspondent Zhao Jian (6392 0256): "Outlook Good; No Slackening—First in a Series of Commentaries on 'Financial Macroregulation and Control in 1994'"]

[Text] From July 1993 to July 1994, China's government resolutely regulated and controlled the macroeconomy, primarily through financial means. This was the third major regulation and control of the macroeconomy during the past 15 years of reform and opening to the outside world.

What has a year of regulation and control accomplished? The newest evaluation of macroeconomic analysts is that even though deep down inconsistencies and problems in the performance of the economy are still glaring, no change has occurred in the overall trend of development of the economy in a good direction. Financial performance continues smooth and steady, an upturn in the financial situation is a foregone conclusion, and financial macroeconomic regulation and control has been truly very successful.

June financial statistics provide the newest profile of the current economy and financial situation: financial performance continues smooth and steady; money and credit development momentum good; city and countryside residents' savings deposit show continued enormous growth, and bank solvency remains quite strong. At the same time, growth of industrial production continues at a high rate. Total social demand has been brought under control, but it is very brittle. Currency inflation continues to rise with no signs of abatement. However, with moderate macroeconomic regulation and control during the second half of the year, prices can be kept from rising further, and a certain amount of economic growth and stability can be maintained for a gradual decrease in total demand.

At a July conference of financial leaders, one authoritative person provided concrete statistical evidence of the above evaluation. He reported an 18.8 percent growth of industrial production, a 32 percent drop in investment in capital construction, a 24 percent increase in fiscal revenues, and nearly a 50 percent increase in foreign exchange reserves during the first half of 1994. Although inflation increased, its rate of increase slowed. Overall, macroeconomic regulation and control produced a soft landing for maintenance of healthy economic performance.

Those concerned with the macroeconomic situation felt rather pleased at the bullish situation inasmuch as the situation had been extremely disquieting just one year earlier.

Because of the overly rapid growth of social fixed assets since 1992, the entire country suffered from investment demand inflation during the first half of 1993, fiscal difficulties intensified, and serious bottlenecks occurred. These were reflected in the financial realm where they were expressed in a development zone craze and a real estate craze which siphoned off large amounts of capital. This led, in turn, to a steady stream of short-term borrowing in violation of regulations, illegal financing, a rush to set up financial institutions, and the jacking up of interest rates without authorization or in veiled ways.

Tumult in the financial order produced substantial ups and downs in the former fairly smooth and steady financial performance.

During the first half of 1993, an unusual amount of money was put into circulation. Removal from circulation of 156.8 billion yuan during the same period in 1991 and of 6.7 billion yuan during the same period in 1992 became a net increase of 52.7 billion yuan during the same period in 1993. Not only was no money removed from circulation, but an excessive amount of money was put into circulation. This was unprecedented.

The illegal financing craze reached a zenith during the first quarter of 1993. This produced a slide in the savings of city and countryside residents over a wide area. Between January and May 1993, savings grew by 22.6 billion yuan less than during the same period in 1992. This included a 4.5 billion yuan drop in March from the February figure. This marked the second fall in savings deposits since 1980, and it was a 1.9 billion yuan greater drop than the one in 1980.

National banks made a large number of call loans in violation of regulations. By the first half of 1993, 100 billion yuan had been loaned, a substantial amount of it going into high returns projects such as the building of fixed assets and real estate in a circumvention of regulations governing the scale of lending. This contributed to investment inflation, and brought a decline in banks' contingency funds. In some places, banks had trouble making payments.

Renminbi market exchange rates fell tremendously. During the first half of 1993, the United States dollar-renminbi exchange rate on foreign exchange swap markets was 1 to 11. This not only hurt China's foreign trade, but also impaired foreign trader investment in China. It also fueled public expectations of more inflation.

Finance is a country's lifeline, and money is the lifeblood of the national economy. Faced with a grim situation in the economy, particularly in financial performance, the State Council decided on drastic macroeconomic regulation and control. Following a national financial work conference in July 1993, the State Council proposed a series of financial regulation and control policy measures. These included the liquidation of short-term loans in violation of regulations; continuous regulation of high interest rates on savings and loans, a halt to indiscriminate financing, and straightening out the frantic investment in real estate and development zones. In early 1994, timely adjustments were again made in the intensity of regulation and control, a case-by-case loan policy instituted. This hastened financial system reform, including foreign exchange system reform, and intensified financial oversight.

In the short space of a single year, both the financial situation and macroeconomic regulation and control changed entirely.

The most notable achievement was the effective limitation within a short period of the excessively rapid issuance of too much money. During the first half of 1993, the money supply increased 34 percent. Three months following macroeconomic regulation and control, it fell to 20 percent. The removal of money from circulation during the first half of 1994 was greater than anticipated. In May, a net 8.5 billion yuan was removed from circulation. This meant that 12.63 billion more currency was removed from circulation than during the same period in 1993, making May an all-time high month for the removal of currency from circulation. As of the end of June, a cumulative net 8.32 billion yuan had been removed from circulation during the first half of the year. This meant that 61.08 billion yuan less money was put into circulation than during the same period in 1993. Following the 10 June grain price reform, a net removal of currency from circulation continued. This was no simple achievement.

Improvement in the removal of currency from circulation was attributable not only to brisk sales of government bonds, but also mostly to the rather substantial increase in the savings accounts of city and country residents. By contrast with the decline in the amount of increase in savings during the first half of the year, savings deposits between July and November increased 106.2 billion yuan over the same period in 1992. In consequence, savings for the whole year increased 321.8 billion yuan, an all time high. Between January and June 1994, savings increased 20.09 percent over the beginning of the year, thereby contributing further to a stable source of funds for banks.

The financial order, which caused so many headaches, gradually returned to normal. Up until the first half of 1993, banks had issued 100 billion yuan in short-term loans in violation of regulations. In 1994, 83 billion yuan of such loans were recovered. Indiscriminate financing was largely brought under control. Furthermore, the national specialized bank's contingency funds percentage, which the International Monetary Fund characterized as "dangerous liquidity," went from the 3.8 percent warning line prior to institution to macroeconomic regulation and control, to the normal 7.2 percent level 3 months later. It is currently between 11 and 12 percent, thereby demonstrating a further increase in the solvency of the specialized banks. A person in a responsible position in the People's Bank said that the specialized bank's contingency payments rate had earlier been set at 7 percent. Now, however, because of changes in the way calculations are made and in the financial operating system, a fall in the contingency payments rate to 7 percent is unlikely, but a drop to between 9 and 10 percent is possible.

Foreign exchange system reform, which people term one of the "three great campaigns" in economic reform during 1994, has been dubbed a "well-fought battle" by the media. Thanks to the central bank's timely intervention in foreign exchange markets during July 1993 when

in employed economic means to rein in exchange prices, the renminbi exchange rate, which had fallen sharply for a time, was stabilized at the moderate level at between 8.80 and 8.70 yuan renminbi to the dollar. This lay the groundwork for the merging of exchange rates in China in early 1994. On 1 April, the banks began a full exchange settlement and exchange sales system, and on 4 April, the interbank foreign bank market began formal operation. Since the stabilization and orderly merging of the old and the new foreign exchange systems, settlements have been more numerous than foreign exchange sales; the country's foreign exchange reserves have increased; the interbank foreign exchange market has remained oversold, and the need for foreign exchange swaps of enterprises in which foreign traders have invested have been substantially satisfied.

The experts feel that one of the major achievements of financial regulation and control in 1994 has been the successful issuance of 100 billion yuan worth treasury bonds. The gap between fiscal revenues and expenditures is appreciable in 1994. Reliance on the old method of bank overdrafts is bound to increase the amount of currency issued, thereby adding to currency inflation. The change to issuance of government bonds to remedy the deficit actually partially increased interest rates on bank deposits, thereby providing the public some benefit. Government bonds sold briskly; the public gained material benefit; government finance increased its solvency, and inflationary pressures on society became less. Everyone was very pleased with these three gains in a single stroke.

Right now, in an overall sense, both the economy and finance are continuing to develop in a good direction, but microeconomically speaking, money is in short supply in some areas, particularly in large and medium size state-owned firms. Production is difficult. Thus, the clamor to loosen the money supply to invigorate business is very strong. However, agencies in charge of macroeconomic regulation and control point out that industrial growth is high, and investment in fixed assets continues to increase at more than 30 percent. Wages of staff and workers in state-owned firms have increased 37 percent, and M2 (money in the broad sense), which represents total social demand, increased more than 28 percent as of the end of June. This was a 4 percentage point increase over the previous year. This shows that the considerable difficulty in holding down total social demand. During the past several years, we have gone through the following situation: high speed, large scale investment, and large amounts of money put into circulation, culminating in high currency inflation. The macroeconomic regulation and adjustment of 1993 did not solve these problems fundamentally. To loosen the money supply would be like adding fuel to the fire of mounting inflation that shows no sign of coming down.

Experience during several rounds of macroeconomic regulation and control suggests that increase in the money supply has a marked effect on the inflation rate,

and that the inflation rate usually lags behind the rate of increase in the money supply. Senior economists in the World Bank have warned that progress from measures taken since July to stabilize the economy has been encouraging, but that the time does not seem ripe for a loose financial policy. Loosening the currency policy too early could destroy the hard-won gains made in curbing inflation, causing another round of high inflation expectations. This might presage a future need to take more stringent action to restore financial order and stabilize the macroeconomy, thereby precipitating a vicious stop-and-go cycle.

If the money supply cannot be loosened, what is to be done now to solve firms' money shortage problems? Analysts believe that the main reason for the money shortage is the too large size of fixed assets, and no change in firms' mechanisms and structure. The accumulation of goods in inventory, and serious arrears in repayment of loans have resulted in the slow turnover of bank credit. Solution to the money problem first requires solution to market problems. It requires limiting output, drawing down inventories, and stimulating sales. It means producing things that bring returns, and putting efforts into enterprise system reform and the opening of markets, rather than relying on increased credit for solutions. The experts suggest that during the second half of 1994, the central bank should make anti-inflation its goal. It should both support enterprises in producing goods that bring returns, and not loosen control of total credit. It should continue to guard the two gates of currency and credit.

Special regulations should not be made here that in the process of developing a socialist market economy, macroeconomic regulation and control is a regular government task. Macroeconomic regulation and control is a system, and finance is an important means used in the macroeconomic regulation and control system. But it is not the only means. Enhancing and improving macroeconomic regulation and controls means using taxation and finance in common. Hopes cannot be pinned on financial regulation and control alone; otherwise, the role of financial levers alone can scarcely bear the heavy pressures in regulating and controlling the performance of the national economy.

### Timely Control Needed

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22 Jul 94 p 1

[Article by Correspondent Zhao Jian: "Timely Attention to Regulation and Control of 'Degree'. 'Second in a Series of Commentaries on Financial Macroeconomic Regulation and Control in 1994'"]

[Text] Since the beginning of reform and opening to the outside world, many nationwide macroeconomic regulation and control efforts have been directed against cyclical economic fluctuations. Those made in 1985, 1989, and 1993 were the largest and most long lasting.

In 1984 overheating of the economy produced loss of control over credit, so in 1985 the government attempted macroeconomic regulation and control at a time when the regulation and control mechanism was not in good condition. A combination of administrative and economic methods produced fairly remarkable results: The output value of industry and agriculture increased 16.8 percent; national income increased 13.1 percent; and the degree of increase in the amount of money put into circulation was lower than the degree of increase in social commodity retail sales. However, because of "arbitrary uniformity" in tightening the money supply, and since only working capital credit was tightened, with no tightening of money for fixed assets—particularly for capital construction—industrial production in February 1986 saw negative growth. This forced a new loosening of the money supply. The most lasting impression that the negative effects of this effort at macroeconomic regulation left was "arbitrary uniformity."

Marked inflation occurred in 1988. In September, the government began sorting out and consolidating, and in 1989, it instituted a rather severe retrenchment policy. While "controlling the aggregate," it paid particular attention to "readjustment of the structure to ensure the success of key production and construction projects, general cutbacks, and timely regulation." In consequence, the amount of money put into circulation in 1989 was the smallest since 1984, and the overly rapid growth of industry took an 11 percentage downturn from the previous year. Actual investment in fixed assets for the year decreased more than 20 percent, savings deposits nearly doubled over the previous year, and prices rose less than during the previous year. However, one negative effect that occurred at the same time was a 7.7 percent decline in aggregate retail commodities after deducting for price factors. This was a "market slump" without parallel during the previous 27 years.

Unlike the previous two occasions, in this round of macroeconomic regulation and control the supreme policy making level judged the hour and sized up the situation well. Inasmuch as macrocontrol of the economy had changed from the former "money following goods," to "goods following money," since all economic activity was expressed in money value terms, the policy makers decided to exercise macroeconomic regulation and control primarily through financial levers. Mostly, they used credit, interest rates, exchange rates, and such economic means to guide the direction and amount of money flow. They employed readjustment of the way in which money was used to readjust the economic structure, thereby regulating and controlling operation of the macroeconomy.

Many people worried that "arbitrary uniformity" might appear in this round of macroeconomic regulation and control. At a nationwide work conference in July 1993, State Council leaders took advance precautions against this. They emphasized that macroeconomic regulation

and control was not an across-the-board retrenchment but a structural readjustment. Because the country could not stand the amount of economic construction, projects that need not be undertaken should be halted first, money concentrated on the building of key production and construction projects, on agriculture, and on exports to earn foreign exchange. Everything that should be stopped would be stopped and everything that should be preserved would be preserved. There would be no "arbitrary uniformity."

People noted that for the sake of timely and proper regulation and control, both the State Council and the central bank employed unprecedentedly speedy and frequent thorough investigations in several regulation and control efforts. Fact finding was the basis for decisions about how money would be invested.

With Comrade Zhu Rongji in charge, the People's Bank and the specialized banks, working together with a multiplicity of national economic agencies, held eight macroeconomic situation analysis and financial planning meetings, one after another, between August and November. These conferences promptly analyzed the need for funds of each jurisdiction and every purpose, and studied specific ways to meet them.

Leading comrades from the State Council also led persons in charge of State Council financial, banking, and economic relations and trade committees in on-the-spot handling of problems in more than half the country's provinces and cities. They nipped numerous problems in the bud.

Because the financial measures taken at the end of July 1993 to halt the deterioration of the financial order created a tightening of the money supply and credit in the economy, a shortage of working capital occurred at the end of the year in some firms that relied too much on high debt—particularly large and medium size concerns. When the State Council detected this, it immediately produced countermeasures to "close harmful roads and open the right doors," alternately tightening and loosening money to infuse large amounts of working capital and credit into enterprises.

Every jurisdiction steadfastly enforced "a few simple rules to be observed by all concerned" for recovery within a brief period the short-term loans made in violation of regulations. But the money loaned to the real estate business had been converted to reinforced concrete. It could not be recovered. Firms could not use their working capital to repay the loans as this would hurt production. The central bank engineered some flexible regulations and controls to meet this situation. Whatever short term loans in violation of the law that could be recovered would be recovered, but in order to keep production going, banks would return 40 billion yuan from the recovered funds for use as working capital and credit. Money and credit granted in the fourth quarter was recovered at the beginning of 1994. Thus the

central bank combined toughness and gentleness, tightening and loosening. This alternate taking and giving both halted the disorderly short-term loan situation but also eased firms' funds difficulties, producing marked results.

The changes in availability of money and credit resulting from the "close harmful roads and open the right doors" policy attracted international attention. A World Bank analysis showed a slight decline in credit growth in China during July and August followed by a new rise in September. In September alone, 55.3 billion yuan was added to the 188.5 billion increase in domestic credit during the first nine months of the year. In other words, credit increased 26.7 percent in a single month. Statistics show that three-fourths of the increase was used to satisfy enterprises' need for working capital.

Financial experts believe macroeconomic regulation and control at this time was more frequent than during the previous several years, and even though it infused large amounts of working capital in a short period, opinions vary. However, because regulation and control was in the form of fine-tuning without the slamming or the brakes and the great ups and downs of the previous two regulation and control efforts, and because the brakes were applied gently and a soft landing made, great fluctuations in the economy were avoided. National bank credit during all 1993 increased by 484.6 billion yuan, 131.9 billion yuan more than in 1992. This included a 304.5 billion yuan increase in working capital loans, up 85.3 billion yuan from 1993, and a 15.4 billion yuan increase in agricultural loans. Credit increased 22.2 percent. This was 3.8 percentage points lower than the 26 percent increase in GNP growth and price increases combined during 1993. Thanks to the closing of harmful roads and opening of the right doors, the control that macroeconomic regulation and control of the amount of credit produced was about right. Looking back, credit was still a little loose during the first quarter of 1993. Tightening it a little again will help control inflation in 1994.

If one says that the thrust of timely regulation and control during the last half of 1993 was expressed in "closing harmful roads and opening the right doors," then it has been characterized by a "1,3,4,1" credit policy during the first half of 1994. The components of this "1,3,4,1" policy are as follows:

One guiding principle: strict control of the total amount of credit.

Three principles: strict control of credit for fixed assets, separate treatment of working capital credit, and maintaining the supply of a reasonable amount of credit for the procurement of agricultural and sideline products.

Four different handlings: prompt support for enterprises that produce returns; consider given assistance to enterprises that are able to convert losses to profits or reduce losses; issuance of some credit to solve the basic livelihood needs of staff and workers in enterprises that have

serious losses for institutional reasons, prices, or a shortage of resources, as well as to tide over present difficulties enterprises that should declare bankruptcy but have not yet been permitted to declare bankruptcy. In addition, interest on credit should be discounted by the government or departments in charge. Enterprises that have no hope of halting losses, or that are insolvent should declare bankruptcy according to law by stages and in groups.

One prohibition: no use of credit to maintain the production of overstocked commodities.

The "1,3,4,1" policy came about through the summarization of the constantly changing economic situation. In February 1994, bank loans slowed. As of the end of the month, national banks had issued 5.3 billion yuan of new credit. This was only 13.2 percent of the first quarter amount. Enterprises reflected the funds shortage. A joint People's Bank and specialized banks' analysis decided the main reasons for the decline were the arrival of the lunar new year more than half a month later than in 1993, caution in grass roots banks issuance of credit, rapid transportation and marketing of agricultural and sideline products, and a decline in procurement credit, etc. They decided on a prompt acceleration of the issuance of credit. In order to understand the scale of credit so as to be able to provide instructions to all banks ahead of time, the issuance of credit was speeded up each month after March. By the end of June, the amount of credit was more than 175 billion more than at the beginning of the year. It did not exceed the 180 billion yuan credit volume following readjustment during the first half of the year.

Timely regulation and control, and differential handling permitted adjustment of the credit structure when the goal of this macroeconomic regulation and control was to control total credit volume. It both effectively controlled too great an issuance of credit, and also largely assured enough credit to meet the important needs of national economic development.

Chinese People's Construction Bank Statistics show that as of the end of 1994 more than 99 percent of the money needed for the building of key national projects and large and medium size projects was available. During the first half of 1994, more than 50 percent of the credit needed for key national projects and for large and medium size enterprises was available. This was higher than the 40 percent contained in the State Council-proposed plan at the beginning of the year.

The Chinese Bank of Agriculture reported no "IOUs" for the procurement of agricultural and sideline products in 1993. In early June 1994, the People's Bank provided another 6 billion yuan to the Bank of Agriculture for procurement, and it is in process of adopting a series of effective measures to prevent the issuance of "IOUs" for procurement in 1994.

With the fairly substantial increase in bank credit for working funds, business enterprises' working capital

shortage eased further. As of the end of May 1994, the Chinese Industrial and Commercial Bank increased credit by 28 billion yuan for the more than 100,000 industrial concerns to whom it supplies credit. This was 15 billion yuan more than during the same period in 1993. Enterprises and products having good returns, a high production and marketing rate, and large export foreign exchange earnings, as well as those having a major influence on the national economy and the people's livelihood promoted the steady increase in industrial enterprises' production and returns during the first half of the year.

It must be noted that one weak link in macroeconomic regulation and control is lack of vigorous enforcement of the "prohibition against use of credit to support the production of goods in oversupply." Market problems are not given serious attention, industrial concerns production and marketing rates have declined, and returns from the use of credit are not high. Therefore the focus of financial regulation and control during the second half of 1994 must be shifted to accelerating the turnover of funds and improving returns from the use of funds while continuing to strictly control the total amount of credit.

Regarding the problem of how to gear the regulation and control of credit to markets and returns, the central bank is currently considering closely linking bank credit to enterprises business performance. Examples include linking industrial credit to industrial concerns' sales income; linking foreign trade credit to export enterprises' foreign exchange settlements; linking credit for the procurement of agricultural and sideline products such as grain, cotton, and oil-bearing crops to inventories and the recovery of money from circulation; and linking loans for the purchase of fixed assets to the amount of money so far spent on a project and the amount of self-provided capital for projects, thereby providing grassroots banks with guidelines for the use of credit and ensuring attainment of regulation and control goals.

Economic observers believe that for historical and practical reasons, China's macroeconomic performance has two outstanding characteristics: The first is the remarkable speed of national income growth. The second is the marked compulsory substitution effect of a tightening of credit. How can one gauge the "degree" of financial macroeconomic regulation and control in China? What degree of money tightening is right? These are problems that must continue to be explored through practice.

### **Greater Oversight Crucial**

94CE0675C Beijing JINRONG SHIBAO in Chinese  
23 Jul 94 p 1

[Article by Correspondent Zhao Jian (6392 0256): "Greater Oversight of Utmost Significance. Third in a Series of Commentaries on 'Financial Macroeconomic Regulation and Control in 1994'"]

[Text] Foreign commentary is that factors for instability in China's economy stem from overheating. During the first half of 1993, GNP grew 14 percent and foreign trade showed a \$3.5 billion unfavorable balance. The inflation rate varied from place to place. It was 10 percent in some places and 20 percent in others. In addition, accompanying inflation was what experts term financial chaos.

Something of the degree of financial chaos may be seen from the swindling of \$10 billion [sic. Possibly 10 billion yuan intended] worth of securities from the Chongshui branch of the Bank of Agriculture in Hebei Province. System chaos is expressed in concentrated form in illegal financing and short-term lending in violation of regulations. An estimated 10 billion yuan each has been siphoned away through illegal financing and call loans in violation of regulations, most of it going into capital construction, real estate, and the stock market. The direct result has been more inflation of already inflated capital construction, a dramatic escalation of the real estate and stock share craze, and an increase in inflationary pressures. This has led to a slide in savings deposits. Because of difficulties making payments, large numbers of "IOUs" have been issued for bank and postal savings. In addition, only 19.5 percent of the funds needed for key construction projects were available during the first half of 1993. This intensified the conflict between economic development and transportation and energy bottlenecks.

Accompanying the illegal financing and short-term lending in violation of regulations is "currency corruption" [a pun on currency inflation intended] such as the trading of power for money, graft, and bribery.

Social credit is the keystone of a modern market economy, and finance norms are a basic requirement for social credit. One cannot imagine how banks, which are the source of credit, can survive unless they are particular about credit, or how finance businesses, which shoulder heavy responsibilities in macroeconomic regulation and control, can talk about honor unless they are honorable themselves.

July 1993 was the key period when headlong investment suddenly began and the macroeconomy had not yet spun out of control. It was then that the State Council seized the opportunity to employ rectification of the financial order as the wedge for exercising macroeconomic regulation and control. At a national financial work conference, deputy premier and concurrent director of the Chinese People's Bank, Zhu Rongji, forthrightly called for "a few simple rules to be observed by all concerned" in the financial system: The first was an immediate halt to, and a conscientious sorting out, of all short-term loans in violation of regulations. The second was no financial institution may raise interest rates on savings on its own authority or in disguised form. The third was no conflict of interest through personal involvement in bank-operated economic entities.

The moral imperative of the "few simple rules to be observed by all concerned" served, no doubt, as a

warning bell for the slack discipline in the financial system. Banks set great store by three things: their ledgers, their abacuses, and their discipline. As soon as the State Council issued the order, they all sprang to action from top to bottom to rectify the financial order vigorously and resolutely. When the Great Wall Machinery and Electronics Company was found to have engaged in unauthorized fund raising, this served as a profound lesson for the public about the risks of investment

The central bank intensified financial oversight. It required all banks and institutions to make a major effort to clear up short-term loans made in violation of regulations. During the course of the year, a total of 83 billion yuan in such loans was recovered. The central bank also persisted in halting the illegal financing that occurred everywhere. It resolutely halted and corrected financial institutions' unauthorized or surreptitious raising of interest rates, and it called a halt to banks infusion of credit funds into economic entities they operated. It also called for banks to divest themselves of financial entities. At the end of October 1993, the People's Bank head office took the lead in divesting itself of five corporations. In addition, it conducted a regular examination of more than 2,000 financial institutions throughout the country. It also ran a risk supervision check, liquidating and merging a number of illegally established financial institutions that exceeded their examination and approval authority. They rigorously investigated and dealt with non-financial institutions' operation of financial businesses.

The financial macroeconomic regulation and control initiated to put an end to uncontrolled short-term lending and uncontrolled financing scored outstanding results during the second half of 1993. It readjusted the investment structure and improved the industrial structure. During the first half of the year, large sums of "circumvented" money were invested in tourism development zones, small villas, and in redundant construction. During the second half of the year, however, a beginning was made in concentrating funds on key national construction projects. Work was done all along the Beijing-Kowloon Railroad, which was very likely to be completed ahead of schedule. Double tracking of the Lanzhou-Urumqi Railroad progressed smoothly and may be completed by the end of 1994. During 1993, a total of 2,700 kilometers of railroads were built (including multiple tracking and electrification). This played a major role in improving the industrial structure and in easing "bottlenecks." The need for agricultural and sideline product procurement funds was also substantially met.

Rectification of the financial order not only permitted vigorous execution of the country's macroeconomic regulation and control policy, but also enabled a marked improvement of the caliber of the financial work corps. During 1993, the financial system put an end to a total of 1,516 cases of financial fraud and larceny, which was 78

percent of all cases. When the evil hands of wrong doers extended into bank assets, numerous staff members and workers stepped forward to safeguard the banks' reputation with their blood and lives. Society termed them "financial guards."

With an overall turn for the better in the financial order, bank money became more available and came under normal control. During 1994, the "four uncontrolleds," uncontrolled establishment of financial institutions, uncontrolled financing, uncontrolled short-term lending, and uncontrolled raising of interest rates, and a craze to start projects appeared again like rekindled dying embers. This showed that reliance largely on administrative means for rectification of the financial order does not effect a permanent cure. Strict regular oversight according to law must be exercised.

Analysis of authoritative financial data shows the aggregate loans of four specialized banks—the Industrial and Commercial Bank, the Agriculture Bank, the Bank of China, and the Construction Bank, which accounted for 92 percent of total credit in 1985—as having declined year by year to 75.7 percent in 1993. This exhibits a trend toward diversification in China's financial institutions. The latest statistics as of the end of March show the following Bank of China-approved financial institutions: Eighteen banks, 4,400 urban credit cooperatives and united cooperatives, 55,000 rural credit cooperatives and united cooperatives, 20 insurance companies of various kinds, 391 trust investment corporations, 54 entrepreneurial group financial corporations, 14 financial leasing corporations, and 91 securities corporations. Given today's continuing very intense battle between supply and demand for funds, the legal operation of these financial institutions has a large bearing on the normal operation of the financial order. Therefore, financial oversight must change as quickly as possible from funds oversight to oversight of financial institutions, and from after-the-fact oversight to before-the-fact oversight.

The trees may prefer calm, but the wind will not subside. When the first evidence of the "four uncontrolleds," and getting underway and going all out began to appear in 1994, the State Council and the central bank waged a blow-for-blow fight against them. It strictly prohibited the "four uncontrolleds," and intensified the "one control" (strictly controlling aggregate credit, and particularly rigorously controlling the scale of fixed assets credit). It investigated and dealt with the problem of certain companies in Yunnan Province illegally operating foreign exchange futures trading businesses; issued a circular notice censuring the Heilongjiang branch of the People's Bank for exceeding its authority in setting up the "Heilongjiang Provincial Financial Science and Technology Bank"; investigated and issued a circular notice on some financial institutions in Hubei Province having unauthorizedly raised interest rates and drawn savings away from other areas in violation of regulations;

and investigated and dealt with illegal financing activities of certain companies in Wuhan City under the pretext of "razing and selling houses."

In the course of rectifying the financial order, people found that most uncontrolled raising of interest rates and issuance of short-term loans was done by aberrant or unapproved financial institutions. These institutions had only limited sources of funds. In their pursuit of high interest, they used every available means to raise interest rates to attract money and invested short-term funds in real estate. Thus, better financial oversight, and examination and approval of the establishment of financial institutions is the first task. A leading comrade in the State Council said earnestly and sincerely: I worry most that financial institutions might be approved in too large numbers and too rashly, bringing chaos. Unless this problem is checked, all that has been achieved will be spoiled. In this connection, the central bank convened the first nationwide financial institution oversight conference in late June 1993. It urgently studied the formulation of a series of financial oversight laws and regulations, planned strict controls to ensure survival of the fittest financial institutions, and further intensified and perfected the examination, approval, and administration of financial institutions. It called for the diligent cleaning up and rectification in stages and in groups of the more than 2,000 financial institutions that have not been approved or that have been approved in an overstepping of authority. It called for strict control over the sources and authenticity of financial institution funds, and it placed strict limits on the kinds of business in which various kinds of financial institutions may engage.

Why did the "four uncontrolleds" raise their heads anew after the achievements made in enforcing the "few simple rules to be observed by all concerned." Those engaged in the actual enforcement work have a strong sense that financial legislation lagged. Without authority conferred by law, the central bank's oversight authority suffered. Consequently, the People's Bank recently accelerated the pace of legislation. The "Chinese People's Bank Law," the "People's Republic of China Bank Law," the "Insurance Law," and the "Negotiable Instruments Law," have been or soon will be sent to the NPC for deliberation. It is hoped that they will soon take effect. In addition, the People's Bank is in process of drawing up financial regulations including "Financial Institution Administrative Regulations," "Interim Regulations on Investment in Financial Institution Shares," "Urban Cooperative Bank Regulations," and "Rural Cooperative Bank Regulations" to lay a solid foundation for greater oversight.

Once laws have been passed, someone must enforce them. One reason for the financial disorder is incomplete laws and regulations. Another is lack of strict law enforcement and oversight. Particularly lacking is "judges" and "police" who have power. The main function in the transformation of People's Bank functions is the normalization of financial institutions' behavior

through laws and regulations. For branches and sub-branches of the People's Bank, the main function is oversight. They must play a "financial judges" and "police" role.

Faced with the current macroeconomic regulation and control situation, State Council leaders have repeatedly stressed that the Chinese People's Bank bears the most heavy responsibility for oversight: oversight of the financial order. The financial order may not become disorderly. If the financial order becomes disorderly, the entire fine situation may take a nosedive overnight. This is a wake-up warning: Greater oversight is of utmost significance. Carelessness can lead to great setbacks.

### Financial Reform Viewed Essential

94CE0675D Beijing JINRONG SHIBAO in Chinese  
24 Jul 94 p 1

[Article by Correspondent Zhao Jian (6392 0256): "Intensification of Reform Is Essential—Fourth in a Series of Commentaries on 'Financial Macroregulation and Control in 1994'"]

[Text] As the main player in the financial regulation and control system, the central bank clearly realizes that in the regulation and control process that both investment inflation and disorderliness in the financial order are attributable to the strong clash between the existing financial system and the new way in which the economy operates. Intensification of reform is needed to solve this problem.

Acting under leadership of the State Council, the Chinese People's Bank accelerated the pace of reform during the last half of 1993. It concentrated forces for repeated thorough study of an overall plan to intensify financial system reform and opening to the outside world, and for thoroughgoing reform of the foreign exchange control system. It also proceeded from individual locations to entire areas, targeted certain areas, and gradually moved ahead.

How did interbank short-term lending, which is a normal activity of financial institutions, turn into indiscriminate issuance of loans that "circumvented conventional norms." This stemmed from both the external pressure of social investment demand and the internal momentum of banks' pursuit of profit. However, even more important was banks' overly high excess reserves. When a fairly high excess reserves rate occurred in the specialized banks, they should have been lowered by recovering People's Bank loans to the specialized banks. But the existing profits mechanism found this difficult.

Reform means readjustment of the profits pattern. In the present clean up of indiscriminate short-term lending, the Chinese People's Bank took the lead in reform of relending control methods. It cancelled the relending authority of provincial level branches and below the provincial level branches and sub-branches of the People's Bank, and their 7 percent credit scale regulation

authority. It restored this authority to the head office, assigning People's Bank branches solely the task of regulating the money supply. In addition, it centralized financial assignment authority, ceding to the specialized banks total system payment responsibility. People's Bank relending was directly entrusted to the head offices of the specialized banks, their assignment of credit within the system reducing the amount of People's Bank lending. In addition, the State Council decided to reform the People's Bank's financial system, eliminating the People's Bank's motivation for making a profit. These reform measures acted like strong medicine in containing the bank's drive to make a profit and in halting the making of short-term loans in violation of regulations.

Why did the illegal financing craze of the first half of 1993 seduce so much of the public, even government units scrambling to organize high interest internal fund raising? The answer is that during a period of rapid price rises, the difference between low bank interest rates and high interest from raising capital naturally caused money to flow in the direction of high returns capital raising projects.

In the adoption of administrative measures to halt indiscriminate financing, this macroeconomic regulation and control also made sure to employ the interest rates level as a market technique for channeling the flow of capital. After interest rates on fixed deposits rose an average 1.78 percentage points on 15 May 1993 and reached a maximum of 2.18 percentage points, on 11 July, the State Council authorized the People's Bank to raise interest rates once again. The interest rate of fixed deposits, which increased 2.18 percentage points in May, rose another average 1.72 percentage points, and loan interest rose an average 1.38 percentage points on top of a 0.82 percentage point rise. Fixed deposits for a period of three years or more had their value assured. Earlier, "Savings Deposit Control Regulations," were issued in keeping with international practice. Since these interest rate increases narrowed the difference in yield between bank savings and other selected forms of investment, saving deposits, which had skidded for a time, rallied rapidly. In June, savings deposits increased virtually not at all, but beginning in July and continuing until November, deposits increased by as much as 300 million to 400 million yuan, the increase in deposits for the year reaching an all time high.

Why did the twin problems of investment inflation and the issuance of IOUs for the procurement of agricultural and sideline products not cease despite prohibitions, but recur time and time again? To get to the heart of the matter, the prevailing investment system, which only competes for projects but does not assume risks, and the agricultural and sideline products procurement and marketing system in which procurement and market prices are inverted set a poor example. During the "investment starvation" that endured for long without remedy in the traditional planning system, each jurisdiction vied with

every other for speed, control over the amount of investment being lost. This situation was reflected in the direction in which money flowed. Agricultural money flowed into industry, and rural money flowed into cities. Funds for the procurement of agricultural and sideline projects were "withdrawn," a "gap" ensuing. Because of their losses, which the government did not remedy, grain procurement units had no choice but to fall in arrears in grain payments.

Current macroeconomic regulation and control presented a plan for reform of the investment system, and for reform of the agricultural and sideline products procurement system to solve the problem at its roots. It also accelerated reform of the banking organizational system, spurring a separation of banks that existed to serve policies and banks that existed for commercial financing. Formerly, fixed assets loans and credit for the procurement of agricultural and sideline products were largely the responsibility of the Construction Bank and the Bank of Agriculture. Both banks handled both business of a policy nature and of a commercial nature. Since the demarcation line between the two kinds of business was murky, the banks did not do their utmost to control fixed assets loans, or to ensure a supply of funds for the procurement of agricultural and sideline products. Consequently, the State Council decided to found the National Development Bank with responsibility for handling national key construction (including capital construction and technological renovation) loans, and the discounting business. All the banks' infrastructure business above norms was assigned the Development Bank so as to limit investment inflation by beginning with control over fixed assets loans. The Chinese Import-Export Bank was founded with responsibility for all machinery and electrical equipment import-export loan business of a policy nature. The Chinese Agricultural Development Bank was responsible for the loan business of a policy nature relating to national grain, cotton, and edible oil reserves, the procurement of principal agricultural and sideline products, and rural development. Reform of the agricultural and sideline products procurement funds control methods plugged leaks that drained away procurement funds for other purposes. These three policy banks, the Development Bank, and the Chinese Import-Export Bank were founded in 1994. The Agricultural Development Bank will also soon hang out a shingle and begin operation.

The main goal of China's financial system reform is gradual establishment of a new financial system in keeping with a socialist market economy. The key points of this new system are: establishment of a central bank system that independently enforces a monetary policy under leadership of the State Council, and establishment of a financial organization system in which financing for policy reasons and financing for commercial reasons are separate, in which commercial banks are the main entities, and in which different kinds of financial institutions exist at the same time. It means building a uniform, open, and strictly controlled financial market system

having orderly competition. Attainment of this goal requires placing the emphasis of reform on making the People's Bank a true central bank, and making the specialized banks true commercial banks.

In the absence of a central bank, greater financial macroeconomic regulation and control is unworkable. The nub of the present intensification of financial system reform is acceleration of reform of the Chinese People's Bank itself to make it function as a central bank. This means defining the policy goal of the Chinese People's Bank as stabilizing the currency, the Chinese People's Bank head office having the power to control the total money supply, to exercise concentrated currency issuance authority, base interest rate regulation authority, basic currency control authority, and total credit regulation and control authority. As of May 1994, the head office of the People's Bank had completed structural reforms for this purpose, and in February 1994, it redrafted China's first "Chinese People's Bank Law," which it presented in late June to the NPC for consideration. This will ultimately encode in law the authority of the People's Bank to draw up and enforce currency policy, thereby improving the People's Bank's oversight and control of finance business. As a corollary, People's Bank branches and sub-branches are hurrying to change their functions. They are changing their work emphasis primarily in the direction of financial oversight and analysis of survey statistics.

Most recent information shows the Chinese People's Bank to be exploring improvement of financial macroeconomic regulation and control methods. It is gradually changing from mostly reliance on direct regulation and control of the amount of credit to indirect regulation and control through the application of a deposit reserve rate and open market business. In Shanghai, a national open market business operating mechanism is already in place and waiting until the time is ripe to begin operation.

Operating the specialized banks as large commercial banks is the steadfast orientation of financial reform. However, commercial bank reform must proceed in tandem with enterprise reform. In 1992, total loans of the Chinese Industrial and Commercial Bank, the Chinese Bank of Agriculture, the Bank of China, and the Chinese People's Construction Bank accounted for 75.7 percent of all social credit. Their power is of decisive importance in the country's financial system. The change of the specialized banks to commercial banks consists mostly of a change in the ambiguous position of the specialized banks as both government organs and non-government enterprises, and doing business for both policy reasons and commercial reasons. It means founding a commercial bank business mechanism that makes its own operating decisions, bears its own risks, is responsible for its own profits and losses, is self-restricting, is self-balancing, and looks after its own development. It means running banks like businesses. During 1994, all the specialized banks have actively instituted uniform allocation of all bank funds, better

internal control, and steady building of assets-debt ratio management and risk management. Each of the specialized banks have reported their assets-debt ratio management methods to the People's Bank as required by "Interim Monitoring Directive For Commercial Banks Institution of Assets-Debt Ratio Control," and "Interim Provisions on Commercial Banks Capital and Assets Risk Weighting." These methods will be put into effect following approval. Right now, the Construction Bank and other banks are doing their utmost to restructure as the functions of commercial banks require in a strenuous effort to prepare for the intense competition that is to come.

A high ranking individual has disclosed three levels of thinking about reform of the country's commercial banks: One is to operate large commercial banks to serve large and medium size cities and large and medium size firms. The second is to operate regional commercial banks using the stock share system to serve the local economy, and the third is to operate cooperative system small commercial banks to serve the "two small" economies. Since the founding of commercial banks in China began in 1986, nine have been founded. These include the following nationwide commercial banks: the Bank of Communications, the China Trust Enterprise Bank, the Guangdong Bank, and the Huaxia Bank. Regional commercial banks include: Guangdong Development Bank, Shenzhen Development Bank, Pudong Development bank, Shenzhen Zhaoshang Bank, and Fujian Xingye Bank. The property ownership rights of these banks are clear, and their operating goals are well-defined. They may assign personnel flexibly, and they have a lot of self-development and self-limitation latitude. Few problems have been found with them in the present revamping of the financial order. Enhancement and improvement of macroeconomic regulation and control, including further development and perfection of the commercial bank system, including the Bank of Communications, for the founding of a cooperative banking system in which urban cooperative banks and rural cooperative banks are the main entities is underway. The founding of urban cooperative banks will likely begin in 1994, and rural cooperative banks are on the reform agenda for 1995. An authoritative source has said that the advent of cooperative banks will confer corresponding financial regulation and control authority on local governments. This will make the country's financial macroeconomic regulation and control system stronger and better.

Since the advent of reform and opening to the outside world, one of the focuses of financial system reform has been the development of diverse forms of credit and credit instruments. The orientation in setting up various kinds of financial markets is correct, but these markets have not been sufficiently standardized. One component of the current reform is greater control of financial markets. First, the short-term funds market must be standardized, especially interbank call-loan markets, to halt "indiscriminate short-term lending." This will

enable these markets to become money markets that can genuinely solve the temporary money shortage problems that crop up in the clearing of commercial paper. Next, the long-term money market must be regularized. Particularly needed is strict control over the bond and stock markets, making them work in a standardized and scientific fashion.

The most fundamental way to enhance and improve financial macroeconomic regulation and control lies in the intensification of system reform. This is an unparalleled feat. One and a half years of the Eighth 5-Year Plan remain. During this period, we must both control inflation and substantially establish a new financial system to set the stage for the development of the market economy during the Ninth Five Year Plan. Reform comes at a price, but failure to reform comes at an even greater price. We must "brave all difficulties, and plan for the long term." We cannot have any doubts at all about this.

#### **Tax Assignment System Encounters 'Problems'**

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[ECONOMIC DYNAMICS] in Chinese No 6, 18 Jun 94  
pp 7-9, 15

[Article by Bai Jingming (4101 2529 2494) of the Ministry of Finance Financial Science Studies Institute: "Four Major Problems Encountered in the Operation of the Tax-Assignment System"]

[Text] China's tax-assignment system has been in operation now for more than a quarter. But while it is operating on its predesigned track without major deviations, beginning to achieve its anticipated results, our investigation also finds that these months of practice show that it is still encountering many operating problems.

#### **Problem 1: Delayed Tax-Revenue Return [to Localities] Is Worsening Local-Revenue Fund-Management Problems**

Since we have been practicing our new tax-revenue system, Central finance has occupied the dominant position in the process of the initial distribution of state revenue, receiving more revenue with relatively steadier revenue sources, as well as having a much greater degree of regulation and control authority and initiative over the redistribution of state revenue. But as the larger tax categories and all revenue from sectors, such as banking and railways, are under central jurisdiction, with local fixed revenue, except for business taxes and local-enterprise income taxes, being minor taxes in smaller amounts with less stable revenue, and as efficiency is still less than ideal, with most local enterprises sustaining losses or making only insignificant profits, leaving local-enterprise income taxes without much "to be drawn on," local fiscal operations at all levels are sharply dependent on the redistribution of central revenue, with local-finance running budgets and receipts and spending

actions dependent on intergovernmental [central to local] redistribution of state revenue.

As for the State Council's decision to practice a tax-assignment fiscal management system, the reform was meant to proceed in an orderly and step-by-step way to preserve the existing order of local vested interests. So the State Council decided that all 1993 central-revenue net income would be returned to localities, making this the Center's future tax-revenue return-base to localities, with future local-revenue increments linked to tax-revenue-return increments. In short, while the thinking was rational and very clear, to first amass fiscal funds and then redistribute them, this was to involve a process.

But the current problems are: 1. As the actual amount of central tax revenue to be returned to provincial-level fiscal reserves, and how it is to be returned, have not yet been determined, all provinces are similarly unsure of the next tax-revenue return. 2. As the increments of tax-revenue returns to all provinces are set based on the average growth rates of national value-added and consumption taxes, the amount that all provinces can receive from revenue increments becomes clear only by year's end. This leaves all provincial finances with sharply less currently-budgetable fiscal resources, with quite large spending gaps, waiting for tax-revenue returns to heat up the wok for cooking the rice that happens to be unavailable for the time. The overall implementation of wage reform in 1994 is also adding fuel to the flames, with the real increase far exceeding that anticipated which, in addition to inflationary pressures on spending growth and enterprise losses continuing to grow without letup, is confronting local fiscal fund management with considerable problems, and progressively increasing local-government fund-management problems. While the [local] revenue-growth momentum has not abated, spending cannot occur immediately on schedule. For instance, since the Dezhou region in Shandong has been practicing the tax-assignment system, about 260 million yuan of its 1994 revenues, or 51.39 percent, were first put under central administration, with its 1994 subsidy quota of 51.41 million yuan plus its tax-revenue return, adding up to 310 million yuan, or 61.48 percent of its 1994 revenue, dependent on higher-level finance. By mid-March, while the province had appropriated some of its subsidy quota, it had not received any of its tax-revenue return. This directly impacted the region's running fiscal spending, causing a problem of severe wage arrears in some counties. Taking Ningxia as another example, using its 1993 revenue as the base, the new system means that it would have paid over 500 million yuan into central revenue, or 50 percent of its annual revenue. Such a huge amount of funds being dependent on central return, while the return is not arriving steadily, has an obvious impact on regular spending.

While the tax-revenue return not arriving, which causes local finance fund-management problems, is apparently a technical problem that can be solved through specific

adjustment steps, a deeper analysis shows that the matter is certainly not so simple. This is because the adoption of the tax-revenue-return form to achieve a Central assigned payment to localities was based on supplementing the local revenue base, to reflect the principle of making an effort to protect local vested interests, which actually distorts the proper meaning of the assigned payment. Not only this, but it is very hard to say that the adoption of an overall piecemeal method to return funds can play the role of carrying out Central fiscal policy for a top-down effort in macroeconomic regulation and control. It could be said that tax-revenue return per se is a nonstandard assigned-payment form, an interim step. So the way to genuinely solve the abovementioned problems is to establish an intergovernmental fiscal-fund assigned payment system in line with international practice. Once revenue is divided up by tax category, Central finance would rely on the factor method and the Central Government's regional development and capital construction plans, to individually set the assigned payment funds that each province should receive, instead of acting indiscriminately. Meanwhile, local-finance fixed revenue and shared revenue would be in the amounts taken in, with no more resolution by and subsidization at the higher level, and intergovernmental fiscal-fund assigned payment adopting only the one form of top-down assigned payment.

#### **Problem 2: Our Still Incomplete Tax Reform and Tax-Assignment System Are Impacting Local Revenues**

Tax reform is a prerequisite for a tax-assignment fiscal management system. Tax reform directly impacts Central and local government revenues at all levels, having a crucial impact on the financial resources of government at all levels. As for the particular operations of the current tax-assignment system, tax reform would seem to be bound to need further improvement, to ensure the smooth operation of the tax-assignment fiscal system. The incompleteness of our current tax reform and tax-assignment system can be seen mainly in the following two areas:

1. While tax-category reform involving Central revenue is complete, that involving local revenue is not, which is directly impacting the establishment of a local tax system. Since the tax-assignment system went into effect, consumption taxes are all under Central administration, while 75 percent of value-added taxes are. But while the key tax categories in the central tax system are generally all complete, with reform over, those in the local tax system are certainly not complete. Our local tax system now includes mainly the three tax categories of business, local-enterprise income, and urban construction taxes. While the business tax was originally one of considerable tax source, tax reform has changed commerce to collecting value-added, not business taxes, which has cut out a large piece of business-tax revenue. In addition, business-tax revenue from railways, banking, and insurance companies is under central administration. This means that local finance receives little revenue now from

business taxes. Moreover, local-enterprise income taxes, impacted by the two major factors of contracting and losses, are not producing much revenue either. While the tax with current prospects is the urban-construction tax, a new and broader-based urban-construction tax has not yet been put into effect. In addition, certain other minor taxes, such as real estate and securities-transaction taxes, have not yet been reformed completely or put into effect. So local fixed revenue is now in an unstable state, meaning that the local tax system urgently needs to be made sounder. Unless this problem is solved promptly, it will be hard to intensify local fiscal-system reform, with the likelihood of a new round of profit-distribution negotiations between localities and the Center.

2. Tax reform has adjusted our industrial tax-burden structure, of which adjustments some conform to our tax-reform intent and the government's industrial policy, while others have formed a counter-regulatory impact on our industrial structure, bringing misunderstanding to the formation of local-government fiscal-resource establishment thinking and particular measures, which might eventually become objective grounds for disrupting the operation of our tax-assignment system. The more glaring manifestations of this are higher tax burdens to varying degrees for sectors in need of development, such as energy industries, renewable-resource utilization, and wholesale trade, with somewhat lower tax burdens instead for sectors that are already growing too fast, such as manufacturing and retail sales. For instance, typical data for a certain Shanxi coalmine show that tax reform means 9.8668 million yuan more in taxes a year. The typical data for another Shanxi coalmine shows that tax reform means a total of 6.16 yuan a ton in seven tax categories, up 3.29 yuan from pre-reform. The structural figures for the industrial tax burdens in a certain Shandong city show that tax reform has raised the flow-tax burden 11.9 percent for wholesale trade, but lowered it 1.5 percent for retail trade. While the factors now creating higher tax burdens for some industries are quite complex, they fall roughly into two categories: 1. Technical factors. The glaring problem is that small taxpayers are unable to furnish value-added tax invoices, making it impossible for purchasing units to deduct value-added-tax receipts taxes. 2. Tax-rate design problems. For instance, the coal industry's value-added tax rate per se is higher than the product tax rate, while the wholesale trade's value-added tax rate per se is higher than its former business tax rate. Such an industrial tax-burden structure is likely to keep local governments vigorously developing manufacturing to the neglect of basic industry, while the private economy abandons industry and agriculture to pour into retail trades. Meanwhile, it is also likely to cause agricultural and energy producing areas to sharply adjust their industrial structures, thus weakening basic-industry growth. Once such conditions occur, the intent of the policy of applying a tax-assignment fiscal system will be really distorted, eventually undermining the revenue base of finance at all levels.

In light of these problems, we hold that we need to take countermeasures to rectify them as quickly as possible. 1. As for the tax categories we have set up that affect our local tax system, those that need reform should be reformed as soon as possible, while those that need put into effect should go into effect as quickly as possible. As most of the substance of our tax-system reform has been implemented, why do we still need to retain a few minor unfinished details? The crucial task now is to establish a complete new tax-revenue system. 2. We could consider adjusting the value-added tax rates for basic industry and for manufacturing and retail trade, lowering them for the former, and slightly raising them for the latter two, thus changing the current counter-regulatory impact of our tax system on our industrial structure, and ultimately guiding a mutual linkup between local-government tax-resource establishment thinking and industrial policy, to genuinely increase national fiscal resources.

**Problem 3: That State and Local Tax Bureaus Are Still Not Separated Is Affecting Tax-Collection Management**

Since our implementation of a tax-assignment fiscal management system means that the revenue lines between government are clearly drawn, making mutual "access" impossible, and that a thoroughly graded fiscal order will gradually evolve, in which a "one-grade government, one-grade finance, and one-grade NPC" public affairs management system will be eventually implemented, our tax collection organs must be set up separately. When considering the plans for the tax-assignment system, our policymakers had already acknowledged this point, making separate tax organs a necessary organizational guarantee for the implementation of the tax-assignment system. While theoretically, when studying the division of administrative and fiscal authority, we should have conscientiously considered ways to set up two separate tax organs [state and local] and, when putting our tax-assignment fiscal management system into the historical arena, we should also have allowed for the two tax bureaus to operate separately, each in its own jurisdiction, a number of factors have now left this order not yet able to evolve. While the past few months of practice show that our tax-collection management has temporarily not yet been impacted by our incomplete organizational system, this will not necessarily remain the case in the future. As people are already thinking about their own remedies, considering how to "develop" in future, letting our tax collectors continue to operate for long under such unstable thinking would make it hard to avoid chaos in our tax-collection management.

So we now need to emphasize the establishment of two separate tax organs on the state [national] and local levels, if possible best completing the job before the end of the third quarter. Since the fourth quarter is our "peak" tax-collection season, carrying out organizational reform at that time would be bound to sharply impact our collection management, as well as the completion of our annual plan.

**Problem 4: When Implementing Our Tax-Assignment System, We Need To Guard Against Widening the Gap Between Eastern and Western China**

How to keep the gap between eastern and western China from widening has always been a difficult fiscal problem. Our past experience shows that our fiscal package system per se lacked the flexibility and dynamics to regulate our east-west gap, actually putting all provinces in eastern and western China each into their own circulation cycles, closed off from each other. While one of the reasons for practicing a tax-assignment system was to eliminate this flaw, by setting up a nationally uniform market, the current real operation of the tax-assignment system shows that reaching this goal will still require the creation of the external terms for bringing the advantages of tax assignment into full play.

1. In the competitive battle over revenue bases in the fourth quarter of 1993, economically undeveloped regions did not "benefit." On the contrary, as developed regions sharply raised their 1993 revenue bases, the absolute and incremental tax-return gaps between east and west actually increased somewhat. So the economic development assigned-payments playing field for east and west was certainly not level, making it very difficult for western China, under the established terms of the assigned-payments principle, to acquire for a time any preferential growth drive.

2. For a time after the tax-assignment system went into effect, the vested-interests distribution order acquired system guarantees, correspondingly preserving the original fiscal-budget gap between east and west. This made it hard for economically undeveloped regions to obtain interests preferences from the system.

3. As eastern and western China were already subject to a large gap in economic development capacity, the tax-assignment system found the two regions with a large gap in ability to develop and expand financial resources. So while they have the same local tax system, east and west differ as to utilization and application capability, widening their local-revenue gap. This is extremely unfavorable to western China that so needs fiscal resources to develop its local economy.

Obviously, from a fiscal perspective, a key means of shrinking the gap between east and west will be to create the system grounds for regulating the east-west gap. So we are making the following suggestions: 1. When applying the assigned payments, central revenue should arrange fund items so that they favor qualified western provinces, cities, and counties, to spur local economic development. 2. We could consider appropriately adjusting the order of tax-category divisions between the center and all western provinces, to suitably increase the immediately budgetable funds of local revenue.

The existence of the abovementioned problems explains two matters: 1. Our tax-assignment system contains congenital deficiencies that need gradually corrected; 2.

Our tax-assignment reform needs matched with intensified reforms in other fields. As our tax-assignment fiscal management system is just one link in our socialist market economy, it is not an isolated force. As to these problems in the operation of our tax-assignment system, we should now start to pay them great attention, drawing on past reform lessons, instead of waiting until the problems worsen or even spill over before rushing to find strong stopgap countermeasures.

### Financial Growth 'Stable' First Half of Year

94CE0676A Beijing JINRONG SHIBAO in Chinese  
26 Jul 94 p 1

[Article by Jin Rong (6855 5554): "Stable, Healthy Development in China's Financial Situation"]

[Text] Beijing, 25 July—The People's Bank of China today authorized this newspaper to state that its published financial statistical figures for the first half of 1994 show: In the first half of 1994, the financial system conscientiously implemented the financial work policy, firmly implemented the currency policy, safely carried out the financial policy, and, in controlling the macro-economy and ensuring the smooth implementation of all reforms, restrained inflation and supported the sustained, rapid, healthy growth of the economy. The financial situation continued to maintain a good momentum of stable, healthy development. The main indicators of this are: there has been a fairly large increase in the amount of currency withdrawn from circulation, there has been a large growth in savings deposits, loans have ensured the supply of funds needed in key aspects of the national economy, and the state banks' capacity to make payments has been fairly strong; the exchange rate has been stable, and the state's foreign exchange reserves have been increasing.

#### 1. Amount of Currency Withdrawn From Circulation Should Be Larger Than Anticipated

In the first half of the year, the accumulated net amount of ready currency withdrawn from circulation was 8.32 billion yuan, 61.08 billion yuan more withdrawn from circulation compared to that in the same period of last year (a net amount of 52.7 billion yuan were put into circulation in the same period of last year). By the end of June, the amount of currency (ready cash) in circulation on all markets in society was 578.45 billion yuan, an increase of 18.9 percent compared to that at the beginning of the year, and the size of the increase fell back 35.5 percentage points compared to that of the same period last year; currency circulation continues to abate, and this is of important significance for the future control of inflation.

The situation with respect to the withdrawal of currency from circulation is good, and currency circulation is abating; these are striking results obtained by macro regulation and control. They indicate that the total demand in society is gradually being checked, and this is

mainly the good result of the state banks' adopting a series of policy measures such as strengthening macro regulation and control of investment in fixed assets and rectifying the financial order.

#### 2. There Has Been a Fairly Large Increase in All Kinds of Deposits, and the Specialist Banks' Capability To Make Payments Has Been Fairly Strong

In the first half of this year, urban and rural savings deposits increased 314.56 billion yuan, 183.08 billion yuan more than the increase in the same period of last year, or an increase of 1.39 times. Included in this were: city and town savings deposits increased 224.29 billion yuan, 130.69 billion more than the increase in the same period of last year; peasant household savings deposits increased 72.08 billion yuan, 41.37 billion yuan more than the increase in the same period of last year. While there has been a higher growth of savings, the financial organizations have completed the task of selling state treasury bonds to individuals, selling from April to June a total of 88.1 billion yuan worth of state treasury bonds, of which there were 60 billion yuan in three-year bonds and 28.1 billion yuan in two-year bonds. This state of affairs on the one hand shows that in the first half of this year there was a fairly large growth in the people's monetary income. Their sources of savings have expanded, and the trend toward making savings deposits has grown stronger; on the other hand, it reflects socio-economic stability, and the fact that the people's inflation psychology is tending to stabilize and that they have full confidence in economic development, also that this is an important guarantee for the smooth carrying out of several major reforms this year.

In the first half of the year, enterprise savings deposits increased 183.9 billion yuan, 99 billion yuan more than the increase in the same period of last year. That there was a fairly large increase in deposits, on the one hand, was because there was a fairly large loan input; on the other hand, because the reform of the foreign exchange system promoted the development of foreign trade, income from foreign exchange was better than in previous years. The enterprises' settlement of exchange correspondingly increased deposits in Renminbi. Because of the increase in deposits, the specialist banks maintained a fairly strong defraying capability.

#### 3. Increase in Loan Input Supports Stable Economic Development

In the first half of the year, in line with the State Council's requirement that the central banks focus on the problems encountered in the course of development and at appropriate times and with appropriate measures adjust the credit policy, and strictly control fixed asset loans, the central banks took a different approach to circulating loan funds, and ensured the supply of funds for the state's purchase of agricultural and sideline products. In the first half of the year, state bank loans increased 180.7 billion yuan, 81.86 billion yuan more than the increase in the same period of last year, of

which: circulating fund loans increased 100.55 billion yuan, 39.43 billion yuan more than the increase in the same period of last year; fixed asset loans increased 52.54 billion yuan, 26.87 billion yuan more than the increase in the same period of last year. In the first half of the year, the in-place rate of loans for the state's key construction projects and for large and medium-sized projects was more than 50 percent; and in the summer purchase of agricultural and sideline products, the phenomenon of "striking the white branch" did not appear. The tight situation in enterprise funds has been alleviated; in the first half of the year, China's township industry and industry above the township level grew 15.8 percent compared with that in the same period of last year. Although, compared to the peak period last year there was a fairly big fallback, there was no unrest, a fact that reflected the positive results of the central banks' monetary policy measures.

#### 4. Smooth Progress Made in Reform of Foreign Exchange System: Exchange Rate Stable, Ability To Make International Payments Enhanced

Since the exchange rate was put on parallel tracks on 1 January, and since various measures to reform the foreign exchange system were taken on 1 April, the banks have comprehensively implemented the system of settling and selling exchange. On 4 April the foreign exchange market between banks went into full operation. Since the first half of the year, the new and old foreign exchange systems have been stable and have linked up in an orderly fashion, with smooth progress in all tasks being made. The accumulated settlement of exchange is larger than the sales of exchange; and the remaining sum in the state's foreign exchange reserve is \$31.77 billion, \$10.57 billion more than at the beginning of the year and \$2.83 billion more than in the same period of last year. The exchange rate has all this time been stabilized at about 1 U.S. dollar to 8.7 yuan in Renminbi, and this stability of the exchange rate has strengthened the foreign businessman's confidence in investment. According to statistics, in the first five months of this year, real investment by foreign businessmen grew 80 percent compared with that in the same period of last year.

The financial situation is now stable, but it does not allow optimism, the prominent contradictions being: inflationary pressure is quite large, the task of controlling inflation is arduous, and the growth of the money supply has not been reduced; currently, although the scale of investment in fixed assets has been controlled, the problems of exceeding budgetary estimates and of places not raising funds by themselves exist on a wide scale, and the momentum of some places and sectors for starting projects and "laying out vendor stalls" remain strong, thereby intensifying the pressure on banks to supply credit and funds. In the second half of this year, the central banks must continue to carry out a firm monetary policy, resolutely implement the state's policy on financial work, and strengthen structural adjustment, thereby both striving to promote a fallback in the size of

price rises and maintaining an appropriate degree of economic growth. At the same time they must take stock of the amount of credit and funds deposited, accelerate the turnover of funds, and, through further rectification of the financial order and the banks that settle accounts, prevent the recurrence of chaotic short-term borrowing, chaotic raising of funds, and chaotic investment; consolidate the results obtained in the first half of the year, and support the sustained, rapid, healthy development of the national economy.

#### Liu Guoguang on Interest Rate Adjustment

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[ECONOMIC DYNAMICS] in Chinese No 6, 18 Jun 94  
pp 13-15

[Article by reporter Zhan Xiaohong (6124 1420 3163): "Adjust Interest Rates with Same Courage in Carrying Out Exchange Rate Review—Special Interview with Well-Known Economist Professor Liu Guoguang"—First paragraph is an editor's note]

[Text] Inflation has once again become the hottest economic issue for the general public at present. Either heads of the macro-economic control department or economists are all racking their brains to try to keep inflation under control. However, we hope that this interview will help the large number of readers who cherish our magazine deepen their understanding of the current issue of inflation. Henceforth, our magazine will continue to interview some people concerning some economic theories and hot economic issues and publish such interviews for our readers.

Reporter: Professor Liu, will you please dwell upon the current macro-economic situation?

Liu: All right. Good results have been attained since we had strengthened the macro-economic control during the second half of 1993. Signs of economic overheating and chaos in the financial order have been corrected to a certain extent, and the rate of economic growth has somewhat declined. The growth rates of various economic indices such as the domestic production output value, the total industrial output value and the total amount of investments in fixed assets during the first quarter of 1994 were somewhat lower than these in the same period in 1993. However, the only thing that refuses to decline is the commodity price. The general retail price in the first quarter this year rose 20.1 percent over the same period of last year. People hold different views on the current macro-economic situation. Some people believe that inflation is not a major issue while unemployment is one. That means that enterprises are faced with difficulties right now and the supply of money is tight. Some enterprises have suspended production or only operated in half capacity. Some people call this current situation stagnation and that the present danger is "stagnation," not "inflation." I disagree with this kind of view. The growth rate of several major economic indices declined as compared with the same period of

last year, but this rate is still quite high. Production and construction projects are still developing vigorously in certain fields. For example, a number of major construction projects are still in full swing. Naturally there is indeed an issue of overcapacity in production in certain aspects, and in some localities the issue of chain debts has once again cropped up. Enterprises are actually faced with some difficulties. Nevertheless we cannot say on the basis of all this that the current major economic problem is stagflation. The inflation rate has already reached 20 percent now. I believe that our major issue right now is how to keep inflation under control. Our original targets for exercising macro-economic control are that we must decrease our economic growth rate from 13 percent to 9 percent and the inflation rate from 13 percent to 10 percent or below. As seen from the present situation, we may possibly make a breakthrough in fulfilling two targets. It is not easy to achieve our set goal in exercising macro-economic control. However, it is not so good if we overfulfill our targets excessively, because it is not so healthy to keep our national economy strained and subject ourselves to the daily increasing inflationary pressure at all times. Therefore, we must adopt more measures and exert even greater efforts in exercising macroeconomic control. Right now, the government also pays great attention to the issue of inflation. It has also taken many measures such as the development of agricultural production, particularly the shopping basket project, the control of prices for grain, cotton and edible oil and the establishment of a system to conduct major price check-ups. In addition, it has also controlled the scale of investments in fixed assets and the credit line. However, once credit is tightened, there will be a shortage of circulating funds, and the local authorities and enterprises would immediately cry for help, saying that they cannot stand any more. They would call for efforts to loosen the money supply. However, the rate of inflation is so high that it is impossible to ease the money policy. Therefore, the issue of circulating funds is a major one. The measure we use right now is still to control credits and use administrative means to allocate credits.

Reporter: Economists have made relatively sharper criticisms on allocation of credits. For example, Prof. Wu Jianlian, Prof. Zhang Zhuoyuan and Prof. Liu Zuni, an American economist of Chinese descent proposed the use of interest rates to regulate the needs for funds and fight inflation. I remember that as early as in 1988, you had the same idea. Now what is your view on the relationship between the current inflation and interest rates?

Liu: I was about to discuss this issue. It is actually difficult to use the credit line to control the investment scale, because there are many ways to obtain loans right now. For example, a great deal of money which charges borrowers high interest is available on the black market in the form of call loans, while the official interest rates set by the bank are relatively low. This creates a situation whereas on the one side, money is in short supply, while

on the other side funds are being wasted. Due to the fact that demand for money exceeds supply, those who fail to obtain loans have no choice but to seek help from the underground money market where the interest rates are 18 percent, 20 percent, 25 percent or even 30 percent. Yes, I made the proposal you just mentioned as early as in 1988. Right now, I still advocate the use of interest rates to control inflation. I quite agree with the proposal made by the those several scholars whom you just mentioned. China had raised interest rates twice last year, but the adjustment of interest rates was not so large. Right now the inflation rate is so high, while interest rates have not been adjusted. The negative interest rate has already reached 10 percent. This negative rate is irrational. Originally we are short of money. Low interest rates mean that the price for money is low, although money is in short supply. This undoubtedly will exacerbate the situation of money shortage. Originally the price of things in short supply should be high so as to avoid excessive demand for such things. Low interest rates encourage more people to borrow money. Borrowing money at a negative interest rate itself means costless moneymaking. Low or negative interest rates inspire some people to use the difference between the official interest rate and the market interest rate to engage in malpractice. From this, we can see that low interest rates encourage people to look for loopholes, and that they become one of the major sources for corruption. In addition, low interest rates aggravate the demand for funds and thus exacerbate inflation. Therefore, to adjust interest rates according to market supply and demand is something that we must carry out.

Reporter: Another thinking prevails. It is believed that the method of using interest rates to control inflation is insignificant at a time when egalitarian treatments are given to all enterprises formed under the traditional planned economic conditions. State-owned enterprises do not care much about high interest rates. Particularly a number of local governments care little about raising interest rates. Thus, to adjust interest rates according to market supply and demand will have little impact on curbing inflation. What do you think?

Liu: Those who believe that interest rates have little or no effect on the economy and that the economy will not react to the adjustment of interest rates cannot hold their ground. (1) Enterprises less sensitive to interest rates are mainly state-owned enterprises. Those eating from the same big pot are mainly the state-owned sectors. However, the share of the state-owned sectors is decreasing in our national economy. They only account for 48 percent of the total industrial output value and 40 percent of our GNP. Meanwhile, economic sectors which are not owned by the state are increasing their share in the national economy. They are sensitive to the adjustment of interest rates. Therefore, the adjustment of interest rates will affect the entire economy. (2) The state-owned economic sectors themselves are undergoing reform. Those enterprises which have reformed themselves well,

separated government functions from business management, truly assumed the responsibility for their own profits and losses and implemented the corporate or shareholding system are also relatively sensitive to the adjustment of interest rates. How can you say that they care little about interest rates? (3) Raising interest rates will benefit the residents. If the period in which negative interest rates lasts too long or they are too high, people will not try to save their money. They would even squeeze the bank. This situation happened in 1988 and also in 1993. On the contrary, we had prevented residents from squeezing the bank and stopped bank deposits from dropping, after we had timely raised our interest rates twice in the past. It shows that China's experience in carrying out reform also proves that interest rates have an impact on our national economy.

Reporter: The adjustment of interest rates has not been regarded as an important means in dealing with inflation. Is it possible that considerations are being made to the fact that enterprises will be faced with more difficulties after interest rates are raised. When interest rates are raised, production costs will become higher. Enterprises cannot stand and would inevitably scream "too much, too much."

Liu: This view is entirely opposite to the previous one. The previous one is a theory of caring little about interest rates, while this one is a theory of caring a great deal about interest rates. Both of them are groundless. (1) Not all enterprises and all projects cannot endure market interest rates. Actually a considerable number of enterprises can bear them. They can afford to borrow money at the market interest rate which is higher than the official interest rate. This is an objective reality. Otherwise, how can we explain that people dare to obtain loans on the market, which charge them 30 percent interest. Speculators who illegally buy and sell stocks and land are even willing to pay higher interest rates. Here, we are not going to talk about them. (2) There are indeed some projects and enterprises which cannot stand high interest rates. However, these projects and enterprises are what the state badly needs. We must vigorously support and protect them. Many of their difficulties are caused by objective reasons. For example, their profits for many years in the past have been taken away by the state. Thus, they have no money to carry out technical innovations. The state should extend discount interest loans, or the Investment Bank or and the State Development Bank should use policy-related loans to help these enterprises overcome their difficulties caused by the high interest rates after interest rates are raised. It is necessary to handle specific conditions with specific measures. We must not use low interest or negative interest rates to support those enterprises with exceptional difficulties. We must be selective in implementing our policy. (3) As for those businesses of general trade of a competitive nature, the interest rates for their loans should be determined by the market. Profitable enterprises naturally can stand the market interest rates. If less profitable enterprises cannot afford to pay the market interest

rates, they may have to improve their technologies and management and adjust their product mix. Otherwise, they cannot survive and will have to go bankrupt. This is called the survival of the fittest! In developing the market economy, some enterprises survive while others collapse. The new supersedes the old without end. Only in this way can vitality be maintained and efficiency be improved in developing our economy. In the course of developing market economy, we should not protect the backward. We cannot use low or negative interest rates in support of those enterprises with low economic efficiency. Naturally the government should help enterprises which have declared bankruptcy to take care of laid-off workers and quicken its pace in building the social security system. On what do the negative interest rates rely to keep themselves alive? They rely on the devaluation of the depositors' savings to support the negative interest rates. Negative interest rates actually constitute a form of exploitation of the large number of depositors. When inflation swells, speculators can reap staggering profits by borrowing money, while the money which the ordinary people have painstakingly saved is being devaluated. This phenomenon does not tally with the theory of treating all the people on an equal basis. Nor does it conform with the principle of efficiency. This kind of interest rate mechanism does not accord with ideals of socialism. Nor does it meet the requirements in the development of market economy.

Reporter: Other people say that "Two-digit inflation is nothing serious. Two-digit growth rate is something that we really enjoy." They also believe that inflation will not affect wage-earners much, because they can use the method of linking their wages with price—the wage index system—to offset the impact of the inflation. What do you think about their idea?

Liu: The system of wage index? However, you cannot increase the amount of your saving deposits according to the index! Your savings are being devaluated under the pressure of inflation. Furthermore, wage index is not going to cover the entire society. It always lags behind the inflation rate. There is no inevitable connection between high growth rate and high inflation rate. The method to use inflation to stimulate economic growth is absolutely unacceptable. Now I dwell upon the following question everywhere I go: We must insure that interest rates genuinely reflect the supply and demand of funds; and use interest rates as a weapon to fight inflation. Interest rates must be adjusted according to market supply and demand. Naturally we must have a procedure to achieve this goal. Only by going through a gradual process can the measure of controlling loans by adjusting credit limits be changed to one of using market interest rates to regulate the supply and demand of funds. Just like the reform of exchange rates, the Renminbi did not achieve its goal of free convertibility at one stroke. However, we have made a giant stride in merging the exchange rates after all. When we reformed the exchange rates last year, we also assumed certain risks. Nevertheless we went through, and the results are not so bad. We

must also assume some risks in reforming interest rates, but we should work even harder to emancipate our thinking and carry out our interest rate reform with the same courage as we demonstrated in reforming the exchange rates. Naturally we cannot fight inflation by raising interest rates alone. There are other measures which can be used such as the control of money supply by the central bank, open market operations, the capital reserve system and even the price control. The issue of interest rate reform involves both development and reform, because the use of interest rates is an important means in insuring the steady development of the macro-economy. Moreover, in carrying out reform, we must gradually change our method from the use of direct administrative means to the use of indirect means to regulate the macro-economy. In a financial term, an important indirect economic means is the use of interest rates.

### **Levying Social Insurance Tax Viewed Necessary**

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[Article by Yu Jiajin (0151 1367 6855): "On Necessity To Levy Social Insurance Tax in China"]

[Text] The social insurance system is a social and labor policy of an international nature aimed at basically insuring people's livelihood and social welfare in society. The social insurance system was established since the founding of New China. Particularly in recent years, progress has been made and a series of reform programs have been launched in improving the social insurance system. Right now when the tempo in building socialist market economy is being accelerated, the reform programs in various aspects are being developed in breadth and depth. China's social insurance system must also undergo a fundamental reform so as to keep pace with the new situation in the development of the market economy. Therefore, the call for a quick action to levy the social insurance tax is becoming louder and louder. Comrade Jinxin, Deputy director of the State Tax General Administration, had repeatedly stressed the need to levy the social insurance tax. Here I like to briefly discuss the issue of levying the social insurance tax.

### **I. Urgency and Necessity in Levying Social Insurance Tax in China**

(1) China is faced with the grim situation of its aging population.

It is internationally stipulated that when the number of people who are 60 years of age or older exceeds 10 percent of a nation's population, this nation has entered an aging society. Right now, in China's population of 1.1 billion, there are nearly 100 million old people who are over 60, accounting for 9 percent of our population. The number of old people is expected to reach 200 million by the beginning of the 21st Century. China will then

become a nation with an aging population. The number of old people at 60 or over has already exceeded 10 percent of the total population in Beijing, Tianjin, Shanghai, Jiangsu and Zhejiang. These cities and provinces have entered the aging society ahead of schedule. According to an estimate made by the Beijing Municipal Statistics Bureau, the percentage of old people in Beijing who need support will rise to 23 percent by the year of 2000 and reach 53 percent by the year of 2032.

With the improvement of people's living conditions in China, the average life expectancy in our country has already reached 70 in 1990. It will be greatly increased in the next century. From a macroscopic point of view, old people need the support of the whole society, either they are supported by their family members or they draw their pension from the units for which they worked before. Therefore, during the next scores of years, China's aging population will further increase the burden of the society in support of the aging population when the nation's economic development remains fairly low. According to statistics, the expenses on social insurance and welfare for retirees and workers who quit working totalled 7.73 billion yuan in 1978, accounting for 0.48 percent of the Gross National Product. This figure rose to 47.24 billion yuan in 1990, accounting for 2.67 percent of the Gross National Product. The growth rate of the expenses for retired personnel is much greater than that of the workers' total amount of wages and the GNP. This situation is getting worse and worse. Therefore, either from the macroeconomic point of view or from the long-term point of view, the issue of levying the social insurance tax can no longer be delayed.

(2) To levy the social insurance tax is necessary if we consider the need to create a better environment for state-run enterprises to deepen their reform.

Under the new situation in building socialist market economy, state-owned enterprises are faced with the task of changing the way they operate in order to keep pace with the market demand and meet the requirements in carrying out major reforms. The party central committee had repeatedly called for efforts to delegate more power to the large- and medium-sized enterprises. However, the state-owned enterprises, particularly old enterprises, are assuming the responsibility to pay for pension and social welfare to their retired workers. This has affected their competitiveness with other enterprises.

From an overall point of view, we must encourage enterprises to become market-oriented in order to develop a socialist market economy. Thus, enterprises inevitably must push their surplus staff members and workers to the society. According to a conservative estimate, China now has more than 15 million on-the-job surplus personnel (also called workers unemployed because of job shortage). In order to improve their production structure, the enterprise leadership has the authority to reassign or dismiss workers in order to raise productivity after enterprises have more decision-making power. Right now, to dismiss a worker from an

enterprise is a headache and the most difficult task for an entrepreneur. The root cause is that jobless personnel have no protection for their livelihood and that the problem of social security has not been solved properly. To simply push the surplus personnel to the society will hamper social stability. Furthermore, the interflow of qualified personnel is important in arousing work enthusiasm. With the rapid development of the market economy, the market for qualified personnel and the labor market as a whole will become much improved. Enterprises would have better chance to select workers, while workers would have the opportunity to work for better enterprises. Moreover, in developing modern socialized mass production, we should have a relatively small rate of unemployment (or rate of people awaiting job assignments) so as to enhance the internal vitality for competition in various enterprises and whip up the work enthusiasm of all types of qualified personnel. The delay in reforming the social security system has postponed the reform programs within enterprises for labor assignments, personnel affairs and wages and bonuses, and prevented enterprises from completely eliminating the system of "eating from same big pot" and that of "iron rice bowl." All these problems cannot be solved by some individual enterprises. We must rely on the whole society to form a complete set of social security system to solve such problems. Hence we can see that the levying of the social insurance tax and the improvement of the social insurance system are of significance in developing the socialist market economic system. By quickening our pace in levying the social insurance tax, improving the social security system and raising mutual assistance funds to solve the social welfare problem for retired personnel and jobless people, we can not only promote the in-depth development of China's economic reform but also create a society of stability and unity.

#### (3) Feasibility in Levying Social Insurance Tax To Increase State Revenue.

Those who believe in Marxism-Leninism say that in the course of carrying out socialized production, the state should adopt various means to withhold a part of the social wealth accumulated by the workers to set up a foundation to insure that workers can lead a normal life when they have no work to do. In other words, the pension which a worker draws after he or she loses the ability to work is a part of the fund withheld from the total social labor by the state before he or she loses the ability to work. The pension is in essence a worker's well-deserved remuneration (or depreciation fund) and an important part of a worker's economic interest. It is the same as a worker's wage. There is only a time difference. Wage is an actual consumption fund, while pension fund is an accumulation fund that satisfies a worker's long-term needs. To levy the social insurance tax serves as a tool to raise this fund. Although enterprises and institutions and workers themselves contribute a certain percentage of social insurance tax each month, such tax does not affect the production of an enterprise or the livelihood of a worker much. However,

macro-economically this may help the state accumulate a large amount of funds. The levying of the social insurance tax will not only provide the state with additional source to develop its social security program, but also help increase the state revenues. Meanwhile the state may use a part of this fund to develop major construction projects and quicken its pace in carrying out economic construction.

#### (4) Significance in Levying Social Insurance Tax in close connection With the basic state policy on family planning.

To carry out family planning work is often called the "most difficult task under heaven." For more than a decade, family planning work has been carried out much better in urban areas than in rural areas. The root cause is that urban workers have pension after their retirement, and that they can support themselves with a steady source of income. Right now, a contract system is being implemented in the countryside. Families without men are often at a disadvantage, let alone support the elderly. In economically developed provinces, many farmers are working for the rural enterprises where women and men enjoy equal pay for equal work. Meanwhile both women and men workers have pension for their retirement. The economic development and the improvement of living conditions in these districts have made people gradually change their mind. They realize that there is no difference whether they have sons or daughters. Thus, they put up little resistance to family planning. The population growth rate in Western nations has been quite steady in the past several years. An important reason is that the social security system is relatively sound in these countries. Hence we can see that we must levy the social insurance tax in the whole country, pool all necessary funds and use them in an unified manner to help workers eliminate their fear about birth, senility, illness and death. This will make family planning work which has been regarded as the "most difficult task under heaven" into people's conscious action.

### II. Levy Social Insurance Tax As Soon As Possible

As of the end of 1993, more than 85 million workers and 17 million retirees from more than 500,000 enterprises of various types in China have been contributing to the mutual assistance funds for retirement. They have raised over 20 billion yuan pension fund and more than 3.8 billion yuan unemployment fund. However, in face of the gigantic social demand, these funds are utterly insufficient to meet the requirements in developing China's economy. Therefore, we should quicken our pace in levying the social insurance tax. In levying the social insurance tax, we may, first of all, rigidly levy such tax. Meanwhile we should make full use of the sense of continuity in tax collection to continuously and timely collect the social insurance tax, to make this tax collection a normal operation, and to set up a foundation for the social security system. Second, we may borrow our nationwide taxation system, a "contingent of enormous

fighting power," to collect the social insurance tax throughout the country. Currently, China has a large army of 600,000 tax collectors. They have covered vast areas and visited millions of families. While collecting other taxes, they may collect the social insurance tax at the same time. Therefore, in levying such tax, there is no need for the state to use more manpower and material resources. Third, in a poll conducted in Beijing, Tianjin and Shanghai in September 1993, the issue of social security has become one of the ten hot social issues to which the general public had paid great attention. We must "prepare against a rainy day," and under no circumstances should we "dig a well when we are thirsty." At a time when China will soon be entering an aging society and developing its reform program in depth, we may quicken our pace in strengthening our social security system, stabilize the society and promote socialist economic construction by levying the social insurance tax as quickly as possible.

## Industry

### Development Plan for Machine-Building Industry Outlined

#### Objective Outlined

94CE0637A Beijing JIDIAN RIBAO in Chinese  
19 Jul 94 p 1

[Article by Ministry of Machine-building Industry, Industrial Development Department: "Objectives of 'Vigorously Developing Machine-building Industry'"]

[Text] The strategic objective for the machine-building industry as it moves toward the 21st century is to strive in fifteen years to essentially complete the task of vigorously developing the machine-building industry by 2010, making it a mainstay industry of the national economy.

Learning from the practices of various countries in the world combined with China's national characteristics, what is called a mainstay industry can be summarized in the following few important requirements:

1. Having a rather large-scale output makes up a rather large share of the national economy.
2. A large degree of industrial connection bringing about a rather strong drive and impetus to the national economy.
3. A large technological connection function and rather high technical standards capable of giving impetus to and driving the technical progress of the national economy.
4. A highly effective investment in output with a great potential to bring about increased productivity and the capability to maintain sustained growth.
5. A highly concentrated industry with clear economy of scale benefits.

For the machine-building industry to become the mainstay industry of the national economy, it must satisfy the five requirements described above. So, beginning with the fundamental task of supplying advanced equipment for the development of the national economy combined

with the situation in the domestic and international economy and trends in the development of the machine-building industry itself, overall objectives for the vigorous development of China's machine-building industry by 2010 should be: To establish a machine-building industry rather strongly competitive on the domestic and international market that can provide most of the technical equipment required by such basic industries as energy, transportation, and raw materials, and product quality and performance that approximates or reaches current advanced world standards. Such important products as electrical equipment, numerical control machine tools, and automobiles will have self-development capabilities. Mechanical product export totals will enter the leading ranks of mechanical product export trade and high value-added mechanical products will make up a rather large share of export products. Major economic results indicators will exceed the industrial average and the industrial concentration will markedly improve, forming an economy of scale.

This strategic objective will be stressed by attaining a sustained, stable growth rate and striving to integrate economic results with the rate of scientific and technical progress and development based on constant improvement in economic results, product quality, and technological standards, indicating that a strategic change has occurred in machine-building industry's selection and determination of strategic objectives for economic and technical development.

#### I. Technical Development Objectives.

It is necessary that mechanical product standards and quality make a great leap and their international competitiveness clearly improve. By 2010 the disparity between the technical standards of major products and advanced world standards will be reduced from the present about 20 years to about 10 years. Large backbone enterprises (groups) that produce key products will have 90 percent of their major products reach world standards for the end of this century or the beginning of the next century and 10 percent will approach or attain the advanced world standards of the time.

Product quality, reliability, and the life of the whole machine will greatly improve. Mechanical product standards will all attain general international levels. The standards of the products of backbone enterprises will approach those of the same type of advanced foreign enterprises.

All key backbone enterprises and enterprises with export products will achieve GB/T19000(ISO9000) quality control standards.

#### II. Structural Adjustment Objectives.

It is necessary that product mix be constantly adjusted and improved in accordance with the demands of the market and the organization of structural adjustments

tend toward rationalization and promote industrial concentration and concentration of production.

The rate of market satisfaction of machine tools represented by numerical control machine tools must reach about 80 percent. The product quality of basic spare parts and basic primary parts must be able to ensure the requirements for improvement in the level of the main machine and essentially establish the reputation of the quality of the mechanical product among consumers, and the structural contradiction of the weak base of machine-building industry must be essentially alleviated.

The production concentration of the leading 100 machine-building industry enterprises (groups) must improve from 18 percent in 1992 to 35 percent or more in 2010 and enterprise organizational structure must be rationalized. The vast majority of large enterprises must essentially establish a modern enterprise system. We must strive by 2010 to improve the concentration of production of the leading eight productive enterprises (groups) in such industries as tractors, metallurgy, mining, petrochemistry, electrical stations, and mechanical engineering and the leading five automotive industry enterprises from approximately 40 percent in 1992 to 80 percent or higher.

We must form a group of enterprise groups with rather strong competitiveness. By 2010 we should have thirty large enterprises with sales in excess of 10 billion yuan, truly forming the main force and the leaders of the industry.

### III. Overall Objectives.

Based on scientific and technical progress, we must have sustained, stable, cooperative, and rapid development.

In 2010 the total value of output of machine-building industry must improve to make up one third of national industry from approximately one fourth in 1992, and the share of industrial added value must increase from 6.8 percent of the gross national product (GNP) in 1992 to 8 percent or more.

The foreign exchange earned from exports must reach US\$130 billion, improving from making up 14.9 percent of national export foreign exchange earned in 1992 to about 25 percent, and export totals must enter the top ten in the world.

Labor productivity and profit rates on capital must be higher than the national industrial average.

Machine-building industry per capita value of equipment possessed based on a 50 percent increase from 1991 to 2000, by 2010 should increase by another 50 percent. Based on large and medium-sized enterprises' already having generally adopted CAD, CAM technology in 2000, by 2010 among major products the key production processes of small batch and multiple variety products must have achieved computerized production, and

engineers and technicians' share of the total work force must improve from 8.6 percent in 1992 to 13.7 percent. The quality of the machine-building industry itself must have a rather great improvement.

Realizing vigorous development of the machine-building industry will cause it to become the mainstay industry of the national economy and clarify its objectives. There are opportunities and challenges and the people are concerned and the whole country is focused on it. We are fully confident of future prospects. We believe that under the leadership of the party Central Committee with Jiang Zemin as the key person and led by Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, conscientiously implementing the great spirit of the Fourteenth Central Committee, the machine-building industry by increasing the diligence of the workers certainly can achieve its magnificent objectives.

### Stages Outlined

94CE0637B Beijing JIDIAN RIBAO in Chinese  
26 Jul 94 p 1

[Article by Ministry of Machine-building Industry, Industrial Development Department: "Two Stages for 'Vigorously Developing' Machine-building Industry"]

[Text] As a mainstay industry with strong industrial connections, a high technology content, and vast market prospects, the machine-building industry is extremely important for promoting a higher level of industrial structure in the national economy and improving the overall quality of the national economy. So, it is totally necessary that an important content of state industrial policy be for the state to put forth a great deal of effort to foster and support the machine-building industry's becoming a mainstay industry as quickly as possible. But the scope of machine-building industry services is vast, the task of vigorous development is heavy, and fully achieving vigorous development and forming an international competitiveness still require a rather long period of struggle. We envisage a fifteen year period, striving until about 2010 to essentially complete the task of vigorous development and make it into a main stay industry of the national economy.

Since 1986, guided by the general policy of reform and opening up, the economic strength, the production technology, and the product quality and standards of the machine-building industry have significantly improved, making a very great contribution to the prosperity of the domestic market and expansion of foreign exchange earned from exports, and giving impetus to the development of the national economy. These accomplishments prepare the conditions for the development of the machine-building industry. But we must look at it clear-headedly. As regards the overall quality and technical standards of the machine-building industry, it is still at the stage of low level development. There still is a very large gap from becoming a mainstay industry of the

national economy. Because of such things as low product standards, instable quality, low production concentration, seriously redundant distribution, a weak scientific and technical base, lacking in self-development capabilities, old enterprise equipment, backward production skills, and weak basic management, generally speaking, the machine-building industry still has not truly shifted to the socialist market economy. If the machine-building industry is to become a mainstay industry, it must spend a great deal of effort and energy to solve these problems of its own.

It will take a huge span of time and extremely arduous effort to vigorously develop the machine-building industry, requiring that we implement it step by step seeking truth from facts. We are considering dividing our strategic plan into two stages, that is dividing the realization of our strategic objectives into two stages. The first stage of vigorous development will be before 2000. The main thing in this stage is to lay a good foundation and build up strength to create the conditions for overall vigorous development. The second stage of vigorous development will be 2000-2010. After laying a firm foundation in the 1990s, China's machine-building industry will enter a new period of vigorous development. Ten years of struggle will make the machine-building industry a mainstay industry of the national economy. The two stages of vigorous development objectives will be divided as follows:

In the first stage, the main thing will be to lay a good foundation, improve product quality and the level of market satisfaction, and promote adjustment of the product mix. We will strive to improve the situation where basic machines and basic parts are in the seriously backward state of complete sets of equipment and main engines and establish a domestic foothold for electrical equipment and modern agricultural equipment, and supply most equipment required by metallurgy, mining, petroleum, coal, and transportation facilities domestically. By 2000 the disparity between the technological level of major products and advanced world levels will be reduced from the present about 20 years to about 15 years. The rate of domestic market satisfaction of machine tools represented by numerical control machine tools will reach about 70 percent. The assortment and quality of basic spare parts and basic primary parts will greatly improve and the structural contradiction of the weak machine-building industry base will begin to be eased. The share of the value of output of the machine-building industry (including automobiles) will improve from 23 percent of the total national value of industrial output in 1992 to 26 percent or more, and the share of the GNP of its industrial added value will increase from 6.8 percent in 1992 to 7.5 percent or more. The share of the export foreign exchange that it earns will increase from 14.9 percent of total national export totals in 1992 to 20 percent or more, striving to become China's top foreign exchange export earning industry. And labor productivity and profit rates on capital will be higher than the national industrial average.

The key to the second stage will be to improve product standards and grades and essentially satisfy the requirements for development of such basic industries as energy, transportation, and raw materials and the automobile industry and have product performance that approaches or reaches current world standards. Such areas as numerical control machine tools, basic parts, electrical equipment, and automobiles will begin to possess self-development capabilities. By 2010 the total value of output, added industrial value, and foreign exchange export earnings of the machine-building industry will reach 30 percent, 8 percent, and 25 percent or more, respectively, of the national industry, GNP, and national export totals. Total export figures will be in the world's top ten and the share of high value-added products in total exports will be rather high.

The first stage is the foundation for the second stage and the second stage will develop from the first stage. If we want to accomplish the task of the second stage overall vigorous development of the machine-building industry, it is even more important for us to be steadfast in the basic work of the first stage. All machine-building industry workers must make concerted efforts to promote the vigorous development of the machine-building industry together in accordance with the strategic measures of the Program for Vigorous Development of the Machine-building Industry.

#### **Economic Indicators for Machine-Building Industry**

94CE0673B Beijing JIDIAN RIBAO in Chinese  
4 Aug 94, p 3

[Article by Cui Ying (1508 5391): "Sales Increases, Rebounding Results, Increased Reserves—Complete Major Machine-Building Industry Economic Indicators for the First Half of the Year"]

[Text] In the first half of this year, with national industrial production continuing to maintain rapid growth, steady growth in production and sales also occurred in the machine-building industry, and economic results gradually turned around.

#### **I. Product Sales Income Continued to Grow, Abating Profits Slide**

According to the June early statistical report of major economic indicators, in June the machine-building industry achieved 33.36 billion yuan in product sales income, a 2.16 billion yuan increase over the 31.2 billion yuan achieved in the previous month and the highest monthly product sales income of any month this year. Broken down by industry, in the statistics for the nine large industries, except for a somewhat reduced monthly product sales income from the previous month in the general use petrochemical and the construction machinery industries, all the other industries experienced a certain growth over the previous month.

In June the machine-building industry experienced a profit of 2.12 billion yuan, a 490 million yuan increase over the 1.63 billion yuan of the previous month, the highest monthly profit achieved this year. Broken down by industry, the automobile industry realized a profit of 1.01 billion yuan, 47.6 percent of the total and a 140 million yuan increase over the previous month. Other industries, including agricultural machinery, general use petrochemical, heavy mining, and electrical engineering and electrical appliances, also had increased profits compared to the previous month. Divided by provinces and cities, in the total 45 units, in June units throughout the system suffering losses were down to seven from ten the previous month, and they were mainly in North China and Northwestern regions.

In the first half of the year, cumulative machine-building industry product sales income was 165.53 billion yuan, a 16.4 percent increase (with value added tax deducted) over the same period last year. Within that, large and medium-sized enterprises achieved a product sales income of 135.68 billion yuan, 82 percent of total machine-building industry product sales income. The 6.66 billion yuan in profits realized represented a 37.2 percent decline from the same period the previous year, but when compared with January-May (-45.6 percent), it was an 8.4 percentage point rebound. Within that, large and medium-sized enterprises achieved 6.34 billion yuan in profits, 95.2 percent of total profits.

## II. Machine-building Industry Composite Index of Economic Returns Further Improved

In the first half of the year, the machine-building industry composite index of economic returns was 86.8 percent, a 2.9 percentage point improvement over the 83.9 percent in January-May. The six economic return indices, respectively, were industrial product sales rate, 91.5 percent, a 0.9 percent improvement over 90.6 percent in January-May; industrial value added rate, 27.7 percent, a 0.4 percentage point decrease from 28.1 percent in January-May; capital profit tax rate, 4.5 percent, a 30.4 percentage point [as published] improvement over 4.1 percent in January-May; annual per capita labor productivity for all workers, 18,100 yuan, a 388 yuan increase; liquid asset turnover frequency, 1.13, a 0.02 increase; and industrial cost-profit rate, 4.2 percent, a 0.6 percentage point increase.

## III. Enterprises Experiencing Losses Decreased Somewhat, But the Amount Lost by Losing Enterprises Further Increased

As of the end of June, of the 9,709 machine-building industry enterprises in the statistics, the number of losing enterprises reached 3,639, a decrease of 288 from 3,927 at the end of the previous month, but an increase of 2,124, or 140 percent, over the 1,515 at the same time last year. Losers shrank to 37.5 percent from 40.4 percent at the end of the previous month, but expanded by 22 percentage points when compared with the 15.5 percent at the same time last year. Losses of losing

enterprises were 2.78 billion yuan, a 350 million yuan increase over the 2.43 billion yuan at the end of the previous month and a 380 percent increase over the 580 million yuan at the same time last year. Provinces with losses in excess of 100 million yuan included Hebei, Liaoning, Heilongjiang, Jiangsu, Shandong, Hubei, Hunan, and Sichuan. Their total losses were 1.45 billion yuan, 52 percent of total losses.

## IV. Finished Product Inventory Continued to Rise and Fund Use Was Rather Great

By the end of June, the machine-building industry finished product inventory had reached 52.25 billion yuan, a 760 million yuan increase from the end of the previous month and a 46 percent increase over finished product funds at the same time last year. The 7.57 billion yuan paid out in interest was a 1.74 billion yuan increase over the end of the previous month.

Because of the conversion from the old to the new accounting system, and the implementation of a new tax system, the specifications and the content of some economic indicators are different from the same time last year. In calculating the standard value of the composite index of economic returns, all include the value added tax. In the economic indicators for January-June, some do not include the value added tax. The same period comparison of the above indices are supplied only for reference.

## Ministry Issues Measures on Industry, Markets

94CE0673A Beijing JIDIAN RIBAO in Chinese  
13 Aug 94, p 3

[Article: "Measures To Administer the Machine-Building Industry Machinery and Electrical Equipment Market"]

[Text] *Editor's Note:* To further meet the needs for the development of the socialist market economy and improve administration of the machinery and electrical equipment market, the Ministry of Machine-Building Industry printed and distributed the notice *Measures to Administer the Machine-Building Industry Machinery and Electrical Equipment Market* a few days ago aimed at improving market rules and regulations and standardizing and cultivating the market and promoting the rational, stable, and healthy development of the machinery market. The *Measures to Administer the Machine-Building Industry Machinery and Electrical Equipment Market* fully explained in the current report are based on the trial measures formulated by relevant departments and have been revised several times. It is hoped that local machinery and electrical equipment markets, while thoroughly implementing them, will give timely feedback to help to further improve market rules and regulations.

## Chapter I General Principles

**Article 1** These measures were especially formulated to meet the needs of developing the socialist market

economy; accomplish optimum distribution of machinery and electrical equipment resources; establish and perfect concentrated, standardized, stratified, networked machinery and electrical equipment markets; improve administration of machinery and electrical equipment markets; perfect market rules and regulations; standardize market activities; improve the order of the market; form an open, fair, equitably competitive, and orderly market operating system; properly control the market; and promote the healthy development of the machine-building industry leading to the orderly operation of machinery and electrical equipment markets.

**Article 2** The machinery and electrical equipment market generally refers to the markets established by machine-building industries.

They can be divided by operational sphere into machinery and electrical equipment general markets and specialized markets, and raw material markets related to machinery and electrical equipment.

Machinery and electrical equipment markets in principle are non-profit units and, in the running of the market, administration and management are in principle separated.

#### **Chapter II Establishment and Approval**

**Article 3** To establish a machinery and electrical equipment market the following basic conditions must be present:

- (1) A large supply and demand for machinery and electrical equipment;
- (2) A fully functional city with an extensive range of influence;
- (3) A fixed market location and market administration talent;
- (4) The market must gradually acquire such comprehensive services and functions as business transactions, communications, displays, publicity, and information.

**Article 4** The sponsoring unit that fulfills Article 3, after scientifically demonstrating feasibility studies, can submit an application to the relevant department to establish a market. A report analyzing the feasibility of establishing a market and the market regulations must be appended to the application report.

**Article 5** National level markets are approved by the Ministry of Machine-Building Industry and the local provincial or municipal people's government; regional markets are approved by the Ministry of Machine-Building Industry; and markets at the provincial level and below are approved by the provinces and municipalities themselves, and after they are approved, they are filed with the Ministry of Machine-Building Industry.

**Article 6** After the report requesting the establishment of a market has been examined and approved, in accordance with the regulations in relevant articles of the

national Provisional Measures for Administering the Registration of Commodity Exchange Markets, the application procedures are registered with the industry and commerce administrative control organ in the place where the machinery and electrical equipment market is established and other pre-operational procedures are handled.

#### **Chapter III Administrative Mechanisms and Administrative Styles**

**Article 7** In setting up administrative mechanisms we must comply with the principle of high efficiency.

**Article 8** The form of administrative mechanism established should be an administrative committee system or other efficient form. The personnel will be made up from the sponsoring unit (or relevant administrative department) and the relevant government department in the place where the market is located, and will adopt administrative methods divided by level.

**Article 9** Administrative mechanisms for national machinery and electrical equipment markets are determined and administered by the Ministry of Machine-Building Industry. Administrative mechanisms for regional machinery and electrical equipment markets are jointly determined by the Ministry of Machine-Building Industry and the provincial, autonomous region, or municipal machine-building department or bureau and administered by the provincial, autonomous region, or municipal machine-building department or bureau. Administrative mechanisms for provincial and municipal machinery and electrical equipment markets are determined and administered by the provincial, autonomous region, or municipal machine-building department or bureau.

Administrative mechanisms for markets that are established by units directly subordinate to the Ministry of Machine-Building Industry are consulted on by the Ministry of Machine-Building Industry and the subordinate unit and jointly administered.

**Article 10** Routine administrative mechanisms. The administrative committee establishes routine administrative mechanisms and is responsible for routine market matters.

#### **Chapter IV Administrative System**

**Article 11** Machinery and electrical equipment markets must publish market regulations and relevant detailed rules and regulations for implementation. That is:

- (A) The scope of commodities traded;
- (B) Trading rules;
- (C) Organizational mechanisms;
- (D) Financial administration system;
- (E) Member administrative methods;

**(F) Methods to implement control.**

**Article 12** No department or locality can use administrative methods to compel enterprises to invest in the running of the market nor can it force enterprises to enter or not enter the market. The market must be voluntary.

**Article 13** Members must be economic entities with credentials as independent legal persons and qualified to produce and engage in various types of business for machinery and electrical equipment and associated raw materials and supplementary materials, and related financial organizations, with large and medium-sized enterprises as the main members.

**Chapter V Trading and Prices**

**Article 14** Markets will engage in such patterns as spot transactions and compensated transactions and comply with the principles of openness, impartiality, fairness, and mutual benefit.

**Article 15** Commodities traded should be legitimate machinery and electrical equipment and related commodities. Trading of fake and bogus products is strictly forbidden.

**Article 16** Product prices must be strictly according to state pricing policy, following the actual market. Such information as varieties exchanged and transaction prices will be released at regular intervals.

**Chapter VI Oversight Organizations**

**Article 17** Markets must establish oversight organizations. The oversight organizations are to be composed of relevant functional government departments and relevant experts, and are responsible for checking the enforcement of market rules and regulations systems and their financial situations, and arbitrating disputes that occur in the market.

**Chapter VII Supplementary Articles**

**Article 18** Governments and departments at every level should support the establishment of machinery and electrical equipment markets and grant them certain preferential policies.

**Article 19** These measures are to be appropriately adjusted in accordance with relevant state policies and regulations.

**Article 20** These measures are produced by the Ministry of Machine-building Industry and the Information Department is responsible for interpreting them.

**Article 21** These measures go into effect from the date of their promulgation.

**Foreign Trade, Investment****Economic Daily Views MFN, U.S. Relations**

94CE0672A Beijing JINGJI CANKAO in Chinese  
12 Jul 94 p 4

[Article by correspondent Wang Zixian (3769 1311 0341) and staff reporter Chen Baojiu (7115 1405 3773):

**"A Wise Decision: MFN and the Future Development of Sino-U.S. Economic Trade"]**

[Text] On May 26th, U.S. President Clinton announced the extension of China's Most Favored Nation treatment, as well as the delinking of the human rights issue from the issue of China's Most Favored Nation status. This removed the greatest obstacle to the development of Sino-U.S. trade since 1989. This was popularly welcomed by China and by every nation (area) in the Asian-Pacific region and by the U.S. industrial and trade community. The successful resolution of this problem will no doubt have a great and important influence on further development of Sino-U.S. trade relations and improve the trade environment in the Asian-Pacific region, especially in Hong Kong and Macao.

**MFN: Hard To Get the Trump Card To Work**

Since 1989, there has been an intense debate in the United States concerning granting MFN to China, and this is the fifth year. On 28 May 1993, U.S. President Clinton linked the human rights issue with MFN, saying that the United States would not extend MFN to China unless China made comprehensive and significant progress on the human rights issue.

However, starting with the second half of last year, a series of changes has taken place in the Sino-U.S. relationship and in the international environment. First, while there has been a lasting economic slump in Western nations, China's economy has been vigorous, continuing to grow at a rapid pace. This existing and potentially huge market greatly improved China's attractiveness to the West. China's relations with such countries as Germany, Italy, Spain, Portugal and France have improved and developed rapidly. Second, the economic downturn in the West has sharpened the competition among the United States, Japan and the European countries, with trade conflicts erupting constantly: after a dispute with the European Community about agricultural products and trade, negotiations between the United States and Japan reached a stalemate this year. Third, on 1 January 1993, the European Community was established, and the operation of a big, united European market forced the U.S. Clinton administration to accelerate the North American Free Trade Agreement, and at the same time to set out the establishment of a Western Pacific Community plan, a map for economic cooperation with the Asia-Pacific region which would bring U.S. world economic leadership into play, and help with the recovery of the domestic economy. Fourth, nations everywhere began gradually to understand China's principles and standpoint.

It was against this background that a series of new changes occurred in Sino-U.S. relations. In November 1993, President Jiang Zemin met informally with President Clinton during the Asia-Pacific Economic Cooperation Organization Leadership Conference in Seattle, and this brought a favorable turn in Sino-U.S. relations.

It marked the resumption of high level contacts and talks between China and the United States, which established normal negotiation channels and a consultative system for working out existing problems in relations between the two countries.

It was the huge success of China's reform and opening and the development of the Sino-U.S. trade relationship that made the U.S. Government realize that linking human rights as a condition of MFN is really no different from getting enmeshed in a web of one's own spinning; it is not a smart action, and it is impossible to get it to work. Therefore, since September 1993, the U.S. Government has gradually been changing its China policy, and adopting a positive posture. Since the beginning of this year, a growing number of governmental and private voices have been demanding a "permanent solution," especially in American industrial and commercial circles worried about losing their opportunity to get into the Chinese market, of falling behind in their competition with other countries, and they had a greater effect on the President. One example of this was when more than 500 major corporations wrote a joint letter to President Clinton requesting the extension of MFN to China without condition. The former Chinese ambassador to the U.S., Li Jieming [2621 3381 2494] pointed out in the document "Beyond MFN—Trade with China and Benefits to the United States" of which he was the chief editor, Clinton's linkage of MFN with the human rights issue had politicized trade and damaged U.S. interests. He publicly advocated the delinking of these two issues, and this represented many of the ideas of insightful Americans.

#### **On the Chinese-U.S. Scale, Reality and Economic Interest Added Weight**

The chief contents of the Clinton decision to extend MFN to China were as follows:

- Extend China's MFN status.
- Delink the extension of MFN from human rights issues, instead of associating the two issues as required in the Jackson-Vanik Amendment.
- There is a ban on importing munitions, which primarily means weapons and ammunition.
- Maintain the current sanctions which have been in effect since 1989. Primarily, this means no access to the U.S. Trade and Development Assistance plan, the Overseas Private Investment Corporation, and the U.S.-Asian Environmental Partnership Relations plan. The United States will continue to oppose the World Bank and other multi-development banks' extending loans which will not be used to meet basic human needs. All weapons trading will cease. There will be no licenses issued for double usage civilian technology or for projects on American munitions lists.

—Conducting what is termed a powerful, pluralized human rights policy for constant progress.

Although in making this decision President Clinton still defended his past policy of linking human rights with MFN, he still had to admit that the past policy was no longer effective. He also said that relations with China must be viewed from the wider area of the Asia-Pacific region. He believes that this meets the strategic, economic, and political interests of both China and the United States. It is no accident that the American Government has reached this decision; it is a big and important action for the United States to adjust its China policy based on its own political and economic interests and out of realities. During the process of making a choice, the realistic consideration of economic interest held a prominent position, and it will continue in the future to be an important factor in determining the United States' China policy.

#### **Sino-U.S. Trade Again Has an Optimistic Future**

Trade and economic experts in both countries admit that the resolution of the U.S.-China MFN issue will be a positive factor promoting development of Sino-U.S. relations, although the so-called "economic sanctions" in effect since 1989 will continue. Of course, resolution of the MFN issue does not mean the contradictions and the economic and political disputes between the United States and China will disappear. However, the requirement of common interests and adjustment of both parties' policies will probably make it easier than before to work out these contradictions and problems.

Based on the foregoing assessment, one can certainly be optimistic about the future trend of Sino-U.S. relations, and there will definitely be further expansion of bilateral trade and economic and technical cooperation. First of all, the Chinese economy will continue its permanent and rapid growth, while American economy appears to be recovering strongly, providing the impetus to development of bilateral trade. Second, China is vigorously winning over GATT and will become one of the founding members of the World Trade Organization (WTO). China must adopt a series of new measures to further open markets, and this will make Sino-U.S. trade contacts more convenient. Third, the United States has adjusted its foreign economic policy, turning to an Asian strategy, so the status of Sino-U.S. trade will rise with it.

Specifically, the merger of the renminbi (RMB) exchange rates will further strengthen the competitiveness of Chinese products in the U.S. market. Currently, the positive effect of RMB devaluation will probably last a while for its export stimulus, and this will determine that the situation of Chinese exports to the U.S. remains good. On the other hand, because China has strengthened its control of fixed asset investments, implementing a tighter macroeconomic policy, the import requirement this year will be restrained to a certain degree, and the overall growth rate of imports will slow down a bit. But

imports of advanced facilities for enterprise replacement and raw materials for maintaining regular production will still continue to increase at a rapid pace. The "three types of capital" enterprises will also continue to import strongly. Therefore, the import mix from the United States will change accordingly.

Some analysts believe that the resolution of this issue will also play a positive role when China resumes GATT negotiations. It is just as the GATT Director-General Mr. Sutherland said: "No doubt, this will help the negotiations, because while the MFN principle is purely a bilateral issue that was discussed in the United States, as one of the WTO's stipulated principles, it has great significance for GATT and the WTO." When interviewed by a correspondent in Beijing, Sutherland declared that there were two obstacles to China reentering GATT: one is a political issue, which is the United States' granting MFN status to China; the rest are technical problems. Now, the political problem has been generally resolved, and there is no doubt this will bring new hope for China reentering GATT.

### Labor

#### Trade Unions Vice President on Business Investment

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26 Aug 94 p 5

[Article by Fang Jiade (2455 0857 1795), Vice President, All-China Federation of Trade Unions: "Certain Problems in the Development of Commercial and Industrial Enterprises of Trade Unions"]

[Text] China is presently at a critical juncture in its reform, opening up, and modernization projects. The 3d Plenary Session of the 14th CPC Central Committee has outlined the essential framework for the system of socialist market economy and for advancing the reform to a new phase where overall progress is integrated with breakthroughs at key points. Faced with the new situation and new tasks, the CPC Central Committee has at the right time given out as an assessment of the general situation that all work in party and state shall consist of "firmly seizing the opportunity, deepening the reform, broadening opening up, promoting development, and preserving stability." Thoroughly understanding and accurately mastering the overall situation is a major topic now faced by the trade unions, including all commercial and industrial enterprises of trade unions, in all their activities. Standing on the high plane of this overall situation and conscientiously analyzing the new circumstances and problems that have to be faced, we must show that we are capable of accurately resolving certain important questions which will have to be faced in the development of the trade union enterprises. We must reach a common understanding, must attain common awareness, promote their sustained healthy development, and must explore ways for the further development of trade union enterprises with Chinese characteristics.

**We must further clarify the character of trade union enterprises and always uphold the purpose pursued by our trade union enterprises**

The commercial and industrial enterprises of our trade unions have a double character, one social and one economic, and their social character determines that the ultimate objective pursued by them must be identical with the social objective pursued by the trade unions themselves, thus becoming the main method and way by which the trade unions fulfill their social function. On the other hand, the trade union enterprises (excepting fully or partly subsidized enterprise units) are independent corporate economic entities and subjects of market competition, a component of the socialist market economy, and as such must operate according to economic laws and market principles. The economic character of the trade union enterprises determines that they must form a correct attitude toward market competition and strive for economic returns. This means that the trade union enterprises, in view of their dual character, must combine achieving social benefits with gaining economic returns. They must, on the one hand, justly and forcefully strive for economic returns, and, on the other hand, unswervingly pursue social benefits. They must firmly adhere to the principle that income of trade union enterprises is mainly to be used in service to staff and workers, that higher economic returns are to increase social benefits, and that increased social benefits will ultimately raise economic returns. The result will be a benign cycle of service—increased income—more service.

The character of the trade union organization determines that trade union enterprises must always aim to "render service to reform, to opening up, and to the development of social productive forces; to render service to our many staff and workers; to render service to the promotion of the cause of the trade union movement." This aim bears the distinct characteristics of the Chinese trade unions and concretely manifests itself in the policy that governs the work of the trade union in this new era. It has been affirmed in actual practice as being absolutely correct. The development of trade union enterprises must, therefore, primarily watch that it be of benefit to reform, opening up, and the development of social productive forces, that it be beneficial to safeguarding staff and worker interests, and that it be beneficial toward raising the quality of trade union work throughout. We must furthermore adhere to these principles as criteria in judging whether a trade union enterprise are operating the right way and operating effectively.

**Efforts must be directed toward evolving a new property system for the trade union enterprises**

Clear and distinct property relations are a precondition for the existence of enterprises in the market economy. Working out a new property system for trade union enterprises means conscientiously reappraising their

total assets, defining their authority over property rights, clarifying their authority over assets, establishing responsibility for asset management, establishing a set of basically standardized and scientifically effective regulation for the management and operation of assets, and also a system of organizational management, forming for each its own responsibility-authority-profit relationship. On the one hand, we must strengthen asset management, accept restraints on property rights, and ensure preservation and increases in the value of property belonging to the trade union as the subject of such property. On the other hand, the trade unions must be separated from the enterprises; the trade union enterprises have become subjects of all assets belonging to these legal persons and have become "legal person" entities, having acquired all the essential preconditions to be subjects of market competition.

The "Trade Union Law" prescribed that assets derived from allocations to trade unions shall be property of the trade unions, belonging to all the members of the union and to the collective, which is the union organization; it is the material basis on which the union depends for existence and development, and also important assurance for the fulfillment of the union's social functions. In establishing the new property system for trade union enterprises and in strengthening trade union asset management, we must, after straightening out property relations according to the pattern of management of state-owned property, institute a system of unified ownership, management at different levels and a system of independent enterprise management. It is critical in this respect to clarify the investment subject, i.e. the organ that represents the trade union in exercising its function as owner, and it is also necessary to fix responsibility for the management of union assets. The All-China Federation of Trade Unions represents all trade union organizations throughout the nation and is as such the ultimate ownership subject of assets; the trade unions of various ranks, as corporate legal persons, are ownership subjects of their assets, while the union enterprises, as corporate legal persons, are ownership subjects of their assets. Clarifying the position of ownership subjects, transforming the property subject relations, establishing a property rights system that conforms to the demands of the socialist market economy, and establishing, from top to bottom, sound property management and a supplemental responsibility-authority-profit relationship, these are presently the main tasks in strengthening management and deepening reform in trade union enterprises.

In the trade union enterprises, the corporate entity ownership system is the primary system, while diverse economic sectors coexist. Most of them are medium- and small-sized enterprises, and they mainly focus on comprehensive social services and labor welfare. In their development, the union enterprises cannot merely rely on investments from the unions, but must adopt measures to actively attract social funds and cooperative investments by members. Therefore, in accord with the special characteristics of trade union enterprises, an

active exploration of a gradual transition from the shareholding cooperative system to the cooperative system of a membership cooperative is the direction in which the pattern of the ownership system of the corporate collective entities of trade union enterprises will have to develop. The shareholding collective system, which introduces the shareholding system into the cooperative economy, is a transformation and evolution of the cooperative economy, adapting to the level of development of productive forces in medium- and small-sized enterprises. As trade union enterprises will institute the shareholding economic system, they must continue to firmly uphold the principle that cooperation has to be the foundation. The membership cooperative system economy maintains the trifold principle: members must put up the capital, members are to benefit from it, and members are to be participate in management. This will promote a close link and economic tie-up between trade union enterprises and membership, and will be beneficial for the strengthening of the democratic management in the enterprises, democratic participation by the members, beneficial for strengthening self-accumulations, and for the formation of a self-restraining mechanisms, as it will also be a forceful guarantee for the preservation and increases in the value of enterprise assets.

**A new method of business operations has to be built up in the trade union enterprises, so as to meet the demands of the market economy**

Working out and actually building up a new method of business operations that would meet the demands of the socialist market economy is yet another important topic in the development of trade union enterprises. This new business mechanism must promote and ensure that trade union enterprises may develop, according to law, into legal entities and market competition subjects with full autonomy in business operations, that they are responsible for their own profits and losses, and that they may develop in self-reliance, may exercise self-restraint, and that they independently enjoy civil rights and bear civil responsibilities.

This new mechanism for trade union enterprises must also be a kind of reinforced group-entity with organically unified operations. It affects mechanisms in many different areas, such as enhanced authority and autonomy, restraints and supervision, responsibility and risks, competition and response, incentives and motivation, and also supplementation and coordination. At the start, the attitude of the trade union enterprises must be one of market-orientation, because only within market competition will it be possible to build up a mechanism that will meet the demands of the market economy and that will operate according to the rules of the market. If we are to build up this kind of a new operational mechanism, we must insist on the precondition of fully regularized property relations and implementation of enterprise autonomy in business operations; we must insist on setting up a new financial accounting system to safeguard the rights of owners, safeguard the property rights

of the enterprises, and implement the management rights of the enterprises; we must insist on setting up a new organizational system for the enterprises, ensuring enterprise operations according to law, and creating favorable conditions for their joining the equal competition in the market; we must insist on setting up a new managerial system, ensuring a more scientific, democratic, and professional way of forming policy decisions in the enterprises, urging on enterprises to form internal mechanisms that combine impulse with restraint. What has to be regarded as important and has to be emphasized here is that establishment of this kind of modern enterprise system in the trade union enterprises amounts to creating a new operational pattern of a modern enterprise system and to a readjustment and perfection of production relations, which requires straightening out the relationship between state, enterprises, and personnel (owners, managers, producers), a straightening out which comprises the two relationships of property rights relations and labor relations. When emphasizing regularization of property rights relation, we must at the same time give close attention to straightening out labor relations, arousing the enthusiasm, wisdom, and creativity of the numerous staff and workers. We must insist on democratic management by staff and workers, and must integrate professional management with democratic management by staff and workers. We must institute supervision by the masses, and integrate professional supervision with supervision by the masses of staff and workers. Trade union enterprises shall be models of democratic management and democratic supervision in their reliance on staff and workers.

**Strategy for the development of trade union enterprises must be determined according to the demands of the market economy**

Trade union enterprises must start out from the fact that they are of a dual character, and their development must be guided by the state's industrial policy as also by the dual needs, namely needs of the market and needs of staff and workers involved. Their key concerns must be expanding their service function and enhancing their guarantee function, setting up a corporate production organization with the special characteristics of the Chinese trade unions, and in their development they must strive for "service, guarantee, high quality, and high effectiveness." For this purpose, the trade unions, when setting up commercial or industrial enterprises, must give priority to the tertiary industries, with the primary characteristic of being able to directly render service to labor welfare undertakings. We must furthermore actively promote union and the formation of an organizational network that links high and low and is spread all over the country. This is to gradually constitute a production structure of trade union enterprises and supportive trades whose main concerns shall be socialized comprehensive services and trades that will ensure labor welfare activities for staff and workers, forming

their own distinct production characteristics and superiorities. It will be the only way to enable their continuous development and growth in the fierce competition prevailing in the market.

Developing trade union enterprises requires a new way of thinking; it requires exertions in the present as well as looking ahead into the future; it requires including the trade union enterprises in every state economic plan and in plans for social development, having them conform with the demands of the state's economic development, and having them consistent with the demands of the market. We must develop a correct attitude toward socialized large-scale production and must change past concepts of "large and complete, small and complete." We must overcome separatism and exclusiveness in units and departments, must rather enhance their "opened-up" nature, and we must promote circulation of all key elements of production over a much wider area throughout the country, achieving a truly optimal organization. Developing economy of scale is the unavoidable trend in the developing market economy. Only economy of scale can make it possible to achieve returns of scale and profits of scale. Through the establishment of an entity of diverse business operations we shall bring the organizational superiority of trade unions fully into play as it will become a superiority in the development of productive forces. Observing the principle of voluntariness, we shall encourage trade union enterprises with closely similar business activities to open up to each other, establish horizontal relations, and with property rights as link, and with the shareholding cooperative system as effective organizational and managerial system, have them set up a standardized community of interests, safeguarded by law, to gradually achieve common progress, as there will be development of strong points and avoidance of shortcomings observed among each other. There will be mutual assistance with particular superiorities. Developing trade union enterprise requires persisting on opening up to the outside world, fully utilizing for one's own development both the domestic as well as the international markets and domestic as well as foreign capital, also to gradually establish mutual contacts and mutual supplementation with the domestic and the international economies. We must actively encourage the trade unions in the coastal opened-up zones and cities, special economic zones, development zones, industrial zones and in borderland provinces and cities to open up to the outside world and establish contacts with the outside world, to develop foreign trade-oriented economies, develop border trade, strive to become windows to the outside world for the benefit of the further development of the trade union enterprises, and to become their bases for imports from abroad and for cooperation with units in the interior, actively bringing their far-reaching stimulating effect and their motivating effect into play.

**When setting up trade union enterprises, the policy must be to place emphasis on the basic level**

An important point of policy when setting up trade union enterprises is to "establish trade unions simultaneously at all levels, but placing emphasis on those at the basic level." Enterprises are subjects of market competition, and it is here that state, collective, and personnel interests come together. State-owned large- and medium-sized enterprises are the dominant element and the lifeblood of China's economy, and effective operation of the state-owned large- and medium-sized enterprises is a crucial point, and also point of difficulty, in the reform of China's economic structure. Basic-level trade unions, especially also the commercial and industrial enterprises set up by state-owned large- and medium-sized enterprise trade unions, are beneficial in bringing the trade union organization into play at critical and most difficult points in the reform, also beneficial in rendering service to enterprise reform and development. They are beneficial in creating employment opportunities for surplus personnel in enterprises, in resolving difficulties for staff and workers, and in ensuring stability for the whole contingent of staff and workers. They are beneficial in handling affairs for staff and workers, doing a good job, specifically sending them to more agreeable projects, and broadening the sphere of benefits for staff and workers. They are beneficial in enhancing the economic strength and work vitality of basic-level trade unions, promoting development throughout the entire range of trade union activities and for the cause of the trade union movement. Practice has proven that it is particularly the basic-level trade unions, especially in state-owned large- and medium sized enterprises, who render solid support for the development of the trade union enterprises; theirs is indeed a huge potential and broad prospects. Deepening everyone's understanding and strengthening confidence and initiative in the establishment of trade union enterprises are the key points on which the various general trade unions at different levels shall concentrate their efforts, endeavoring to enhance services and guidance for the benefit of the work performed by the trade union enterprises.

## Population

### Family Planning at Grass-Roots Units Reviewed

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[Article by Chen Qun (7115 5028), Governor of Fujian Province and member of the Ding County Party Committee: "Discussion of Implementing 'Village Self Management' in Villages That Are Behind in Family Planning"]

[Excerpts] Practice of family planning has fully proved that the enthusiasm of county and township cadres alone cannot guarantee success in family planning. Whether or not cadres at the level of administrative village can voluntarily assume the responsibility in accordance with

the rules and regulations of family planning and vigorously carry out such work is a key issue. Considering administrative villages as the base and relying on the force of village cadres and masses to carry out various managerial tasks of family planning in an all-round way will be referred to simply in this article as "village self-management." Conscientiously implementing "village self-management" is a fundamental issue on the permanent cure for hard-to-solve family planning problems and for raising the level of family planning work in rural areas. It is a critical task for doing a good job in grass-roots units and laying a solid foundation. Currently, the work should be focused on the grass-roots level. There is no question as to the understanding of the issue of starting with the village level. However, how to carry out "village self-management," especially in villages where family planning work is behind, is a question that needs further discussion and experiment. [passage omitted]

### 1. Ten Major Problems

1. Major cadres and party members in the two committees of villages are setting a poor example. The most outstanding reason why many villages are behind in family planning is that major cadres of two committees of village have failed themselves to practice family planning. This includes directly related family members of village cadres and party members taking the lead in having more than one child and getting married and pregnant at a young age. Some even engage in fraud and deception, deceiving their superiors and subordinates, thus adversely affecting the progress of family planning work throughout their village.

2. Inventing indigenous policies and doing things in their own way. In order to balance personal or religious relations or to deal with the tasks assigned to them by higher levels, some village cadres have invented indigenous policies. For instance, they will not make arrangements for ligation or remedial measure unless it is a boy. For another instance, they will not charge a fee for unplanned births according to the standard. Instead, they will set their own standards, etc.

3. They are afraid that they might offend people and are unwilling to take the initiative in carrying out the family planning work. This is because the targets of family planning are all neighbors, friends and relatives who will be with them for generations to come and because some old-fashioned people who have only girls and no boys believe that family planning is to make people die without sons.

4. The masses of people are not mobilized. Relying on and mobilizing the masses has always been our party line. In family planning, a main way to mobilize the masses is to establish the organization of family planning association. Some villages either have failed to establish such organization or have established only dummy organization for the purpose of passing inspection. Some

associations have a list of members which consists of only the names of village cadres or party members with no participation of the masses or schedule of activities. The situation remains as the minority doing the work for the majority.

5. Poor statistics of family planning. Doing a good job in the statistics of family planning is an important guarantee for success in family planning. It is an important basic task. Main expressions of current problems in village-level statistics are: marital and child-bearing status of the population is unclear, recording of marriage, pregnancy, child rearing, death, location, and other facts are based on hearsay. The margin of error is enormous. Some recording cards are in disarray, creating discrepancies between different books. Some records were not entered carefully, creating many mistakes and omissions. Some villages have failed to record in a timely manner, especially those few villages, which intend to harbor the targets of family planning, have purposely submitted erroneous reports.

6. Outdated concepts. The issue of concepts can be divided into two issues: work standard and child-bearing. The backward concept of work standard refers to villages where people are happy thinking that they are now better than they were before even though many cases of unplanned births and early marriage and child births still exist. Some villages are content being mediocre in the performance of family planning while others are content being the last. The backward concept of child bearing refers to the fact that while in some areas the desire of having more children and having boys has diminished and peasants, out of the need to develop production and open up market as the socialist market economy develops, have voluntarily adopted the concept of few and eugenic births, in other areas many people still cling to the outdated concepts of "regarding men as superior to women," "the more children the better," and "carrying on the family name." Even village cadres and party members feel the same.

7. Fear of difficulty and passive attitude. The sheer number of objective problems and the degree of difficulty of work have fostered fear of difficulty and passive attitude. It is true that there are more objective problems in backward villages of remote and mountainous areas than in advanced areas. For instance, one of the problems is lack of four services: highway, telephone, electricity, and broadcast. In some areas, a big mountain has only two households, touring a village takes more than two weeks, and cadres need to take their own food when they inspect villages. For example, during an eight-day tour of villages, a cadre had to eat 24 meals of rice with pickled mustard tuber. Since the foundation is weak, it is indeed very difficult to carry out family planning, resulting in fear of difficulty and passive attitude toward such work. As a result, many jobs are left undone. When it is time for inspection or report to their superiors, village cadres would then try to simply go through the motions.

8. Few villages deliberately cover up for people with unplanned births. With regard to family planning statistics, some villages deliberately omit some births or report fewer births in order to obtain awards and honors through fraud and deception. Some villages do so to help "households with personal connections" to avoid penalty; others do so to avoid criticism from above or getting additional family planning tasks.

9. Propaganda and education in family planning are inadequate. Doing a good job in propaganda and education is the central link of family planning. Propaganda should cover policies, laws, rules and regulations, birth control, eugenics, and the importance and necessity of family planning. In some villages which are behind in family planning, no slogan or poster on family planning can be seen, and no radio broadcast on family planning can be heard. The people there do not understand the stipulations of the family planning policy, nor do they understand anything about birth control and eugenics, not to mention monitoring each other according to policy stipulations.

10. "Two openness and one supervision" has not been enforced in family planning. One of the reasons is that some village cadres have failed to take the lead in practicing family planning. Instead, they have been leading the malpractice of family planning. As a result, they are afraid to enforce "two openness and one supervision." Some village cadres are afraid of openly reporting the family planning situation for fear of offending people. Some have failed to openly report the family planning situation because they do not pay any attention to such work and are not enthused about it. Some even resort to fake enforcement of "two openness and one supervision."

## II. Cause Analysis

The above phenomena have reflected typical problems in villages which are behind in family planning. Many of these problems are fairly common in backward family planning villages. We must conscientiously analyze the causes of these problems. Factors contributing to these problems are very complicated. Some problems themselves are also causes. After investigation and research, I think that in addition to the causes of understanding and concept, there are ten other causes:

1. The fighting force of party branches is weak, and the quality of party members and cadres is low. Some party branches have aging party members and cadres and no study program. They have not established or implemented an objective management responsibility system, and have no appropriate personnel, especially party secretaries. Plus the fact that some party members took the lead in having unplanned births, the above causes have made it very difficult to carry out family planning. "When party members and cadres set an example, most people will follow." This is the summary of success in years of family planning work. As the saying goes, "if you

want to work with iron, you have to be tough yourself." If village cadres cannot take the lead and be tough themselves, it is impossible to do a good job in this work.

2. With a nominal amount of salary, village cadres worry about trouble back home. Major village cadres get only 40 yuan of subsidy a month, and other cadres do not even get paid. Some financially difficult villages cannot afford to compensate cadres for missing their regular work. It is only obvious that such cadres' enthusiasm will diminish after a long period of nonpayment. In the meantime, some village cadres worry that after they leave their job and become old and unable to work, there will be no insurance and protection in their old age. Some worry that after they leave their job, they or their children and relatives will become targets of retaliation.

3. Incentive and restricting mechanisms are not effective. Due to the poor working conditions, numerous problems, and great difficulty of rural family planning, plus low compensation for village cadres, a weak incentive mechanism, which is used to stimulate village cadres' enthusiasm, will inevitably hamper the enforcement of family planning work. However, in some areas, economic conditions are good but family planning is nevertheless backward. Another important factor is that the restricting mechanism is not severe enough and that penalties and the "one-vote veto system" have not been implemented. With the incentive and restricting mechanisms working together and with "one pushing and one pulling" in the same direction, the combination of the forces will inevitably cause the backward situation to improve.

4. Economic foundation is weak, many objective problems exist, and the degree of difficulty is high. With limited revenue, villages not only cannot afford to pay cadres for missing their regular work but also have no money for various subsidies and services for the targets of family planning. Incentives for village cadres, party members and other targets of family planning need money too. Some backward family planning villages have problems even for putting up few posters. Weak economic foundation is indeed a very important cause for poor enforcement of family planning. Objective problems are demonstrated mainly in the areas of finance, transportation, communications, propaganda, and technical service. Poor conditions make work more difficult, and catching up with advanced villages needs more energy and better conditions. The "strange vicious cycle" created by the interaction of the above factors has caused family planning work to remain backward for a prolonged period of time.

5. The quality of family planning managers is inadequate. Some village managers have more than one job and sometimes cannot attend to everything at the same time. Some low-quality people have been hired through fraudulent practice during the recruiting procedures or through "personal connections." Some managers had low qualifications before the hiring and are not afforded

the opportunity to attend effective training after the hiring. As a result, they are incapable of doing even the most basic statistical work of family planning, not to mention doing a good job in other work.

6. Propaganda work is not done. Since propaganda work is not done properly, the masses do not understand the stipulations of family planning policy or the importance and necessity of family planning to the nation and individuals, creating an unfavorable public opinion on family planning. When proper propaganda fails to control the environment, hearsay unfavorable to family planning will take over and become a great obstacle. Fear of family planning, caused by ignorance of birth control and contraceptive knowledge, has also played a major part in this.

7. Technical service of birth control is poor. Setting up family planning service clinic is of vital importance to carrying out family planning work. In backward family planning villages, lack of adequate technical service is often the reason why post-operation visits and service instructions for targets of family planning are not carried out properly. For instance, nobody is in charge of giving guidance to people using IUDs and pills, causing inconvenience to targets of family planning and waste of transportation. At the same time, it is also likely to cause infections of wounds and other complications, thus adversely affecting the progress of family planning.

8. A routine is not established. There is no system. Some areas do not have a system for carrying out family planning. They will organize people to work a few days if their superiors request that they do so. If not, they will "do nothing." They have failed to implement various systems which higher levels have repeatedly asked them to implement, such as two openness and one supervision, establishing a line between the masses and members of the party and family planning associations, and implementing the propaganda and education system. The fact that they are inconsistent with their work has made things more difficult.

9. The masses are not adequately mobilized. Relevant mass organizations such as family planning association are not organizationally sound. Their system is not established and their activities are not properly carried out.

10. Errors exist in the enforcement of policy. Specifically speaking, policy enforcement is inconsistent, sometimes strict, sometimes loose, depending on how close the personal relationship. Such discrimination has caused discontent to turn into resistance among the masses. Some areas have not collected any fees for family planning for a long period of time or they have collected a different amount from different people, depending on whom they are collecting from. [passage omitted]

## Transportation

### Communications Minister Views Transportation Developments

94CE0645A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 262, 16 Jul 94 pp 77-79

[Article by Zhu Da (2612 6671): "Communications Minister Beckons Foreign Investors"]

#### [Text] Utilize Foreign Capital to Accelerate Nationwide Transportation Development

Huang Zhendong [7806 6966 2639], China's minister of communications, said that utilizing foreign capital to accelerate the development of the communications infrastructure is one step China could take to end the strains on the nation's transportation system. To broaden the scale of foreign capital utilization, China must grasp the opportunity and launch a host of projects that generate high returns on investment and are consistent with the nation's industrial policy.

#### Huang Zhendong Beckons Large Foreign Enterprises

Huang Zhendong told this reporter that in order to create a good investment climate and making the opening of China even more transparent, the Ministry of Communications has formulated provisional regulations pertaining to the utilization of foreign capital in highway and water-borne transportation development. China warmly welcomes international financial organizations, foreign governments, and businessmen to come to China to discuss lending and the establishment of joint ventures to build and operate infrastructural facilities in the field of communication.

#### Foreign Capital Utilization Already On Substantial Scale

By late 1993 107 ports had opened to the outside world, 35 ports (excluding small local ports) on major highways had been opened to neighboring countries, shipping agreements had been signed with 43 nations, and inter-governmental vehicular transportation agreements had been signed with eight nations. In addition, the creation of 415 road transport enterprises, 66 vehicle repair and maintenance companies, and 96 shipping enterprises, all Sino-foreign joint ventures, had been examined and approved. All of that has powerfully stimulated the development of China's transportation industry, its import-export trade, and its economic and technical cooperation with the outside world.

Since the 1980's, China's transportation sector has utilized almost \$2.5 billion in World Bank and Asian Development Bank loans and 290 billion Japanese yen in Japan Cooperation Fund loans to construct a host of harbor and highway projects. As far as harbor construction is concerned, wharves have been built using foreign capital at coastal ports like Shanghai, Tianjin, Guangzhou, Qinhuaodao, Rizhao, Lianyungang, and

Qingdao, boosting harbor handling capacity by 43 million tons. Turning to highway construction, 23 provinces, municipalities, and autonomous regions across the nation have utilized or will utilize loans extended by international financial organizations or foreign governments under bilateral agreements to finance road projects, building a total of 7,000 km of highways. In addition, much progress has been made in direct foreign investment in harbor and highway construction. Overseas project contracting and labor cooperation have been expanded.

Huang Zhendong said, "In accordance with the principles of equality, mutual benefit, and reciprocity, China allows foreign shipping companies to set up subsidiaries in China to line up cargo for their fleets or for other ships they operate, sign bills, settle accounts, and sign business contracts."

#### Goal Of Transportation Development By Year 2000

Huang Zhendong revealed that transportation development in China must achieve new goals by the year 2000. Resources will be concentrated to accomplish these major tasks:

1. With 1990 as the base year, everything must be done to quadruple the mileage of highways open to vehicular traffic to 18,500 km by 2000.
2. Of the network of major national highways—"five verticals and seven horizontals," we should concentrate on "two verticals, two horizontals, and three major routes." The "two verticals" refer to the highway between Tongjiang, Heilongjiang, and Sanya, Hainan, and that between Beijing and Zhuhai, Guangdong. The "two horizontals" refer to the highway between Lianyungang in Jiangsu and Huoer Guosi in Xinjiang, and that between Shanghai and Chengdu in Sichuan. The "three major routes" are those between Beijing and Shenyang, between Beijing and Shanghai, and between Chengdu in Sichuan, and Beihai in Guangxi.
3. The handling capacity of coastal ports must double and more. Almost 8,000 km of Class 1 waterways are to be built along inland rivers, forming the rudiments of a shipping network whose framework is waterways above the Class 3 level and whose cornerstone is Class 4 and 5 waterways. Concomitantly, we should develop transportation equipment and put together a support and safeguard system.

This is the principal goal of transportation development in China by the end of this century: significantly ease pressure on the transportation system so that it will be much less of a constraint on economic development, thus laying a solid foundation for even greater development in the early years of the next century.

Huang Zhendong pointed out: "The foremost task of transportation development in China is to carry out the construction plan, goals, priorities, and measures decided upon by the Ministry of Communications and

build the main highways, open up the main shipping routes, and set up key shipping hubs as well as a support and safeguard system."

Based on the "five verticals and seven horizontals" distribution plan, we will concentrate on building 12 main national highways with a combined length of 35,000 km. In shipping, the emphasis is on building a north-south waterway linking the entire stretch of the economically developed southeastern coast as well as 30,000 km of inland waterways dominated by Chang Jiang, Zhu Jiang, Heilongjiang, Huai He, and the Beijing-Hangzhou Canal, forming the main artery of communication where places are accessible either through trunk lines or through feeder lines, where rivers and seas are linked, and where land transportation and waterborne transportation complement each other. Harbors and stations as transportation hubs. This means building on a priority basis 19 coastal hubs linked to the main highways and shipping routes as well as building passenger and cargo distribution centers and service centers in central cities, forming a transfer and transshipment system with coordinated facilities. A transportation support and safety system aims to ensure that vehicles and ships move smoothly, safely, and efficiently on land or at sea. It consists of a security and supervision system, a communication and navigation system, rescue and salvage operations, a security and fire protection system, and an information system. It requires corresponding developments in transportation education and expanded efforts in science and technology. It will take a series of 5-year plans to realize these plans.

#### **Transportation Is Weak Link In Chinese Economy**

Huang Zhendong said, "Communication and transportation are the weak link in the Chinese economy. Our problems today can be summed up as the three failures to keep up. First, the development of the public infrastructure fails to keep up with the growth in vehicular and water-borne traffic. Second, the growth in vehicular and water-borne handling capacity fails to keep up with the demand for passenger and freight traffic. Third, the growth rate of transport capacity fails to keep up with the rate of national economic growth."

#### **New Opportunity For Accelerated Development**

At the same time, communication and transportation are presented with a new opportunity for accelerated development. To begin with, the authorities attach a lot of importance to the development of transportation and has firmly put it on top of the agenda of infrastructural development. Second, transportation has special significance for improving the investment climate and lifting the public's living standards. From the localities to the central government, there is a good deal of enthusiasm for improving transportation. Third, transportation is highly attractive to foreign investors. Momentum for foreign investment in that area is building up strongly.

The second meeting of the Eighth National People's Congress has set the following objectives for transportation reform this year: tentatively create a unified, open, competitive, and orderly communication and transportation market by the end of this century. First, the communication and transportation market must be a unified and open market. At the moment the Chinese market is still underdeveloped and the market mechanism is imperfect. Regional and sectoral separatism exists to varying extents. In the near future we must work hard to create freight transport markets of different kinds and shapes and organize contract transportation, gradually forming a nation-wide interconnected network of markets. At the same time, we must adjust the appropriate shipping policies in line with international practices and conventions, thus laying the groundwork for the resumption of China's status as a contracting party to GATT and spurring the integration between the domestic transportation system and its international counterpart. Second, the communication and transportation market must be a competitive market. Local road and water-borne freight transportation may be governed by market prices. Transportation enterprises should be allowed to charge seasonal floating freight charges based on changes in the traffic flow. Projects in infrastructural development should continue to use the bidding system, encouraging competition through open bidding. A project owner responsibility system should be introduced in stages. Under such a system, the owner puts together the project and is in charge of its operations and management, including the repayment of loans. Third, the communication and transportation market must be an orderly market. Communication law-making must be accelerated, focusing on the rewriting of management laws and regulations not suited to the needs of the market economy and the formulation of rules and regulations governing market entry and standardizing market behavior.

#### **Transportation Reform and Establishing a Modern Enterprise System**

Another objective of communication reform is to create a modern enterprise system. For some time to come, we must make it an urgent priority to give decision-making power to transportation enterprises. Meanwhile we should reorganize in accordance with Company Law large and mid-sized state transport enterprises into wholly state-owned companies of limited liability or corporations in which the state is the controlling shareholder. A number of large shipping enterprises should be selected to participate in state-organized pilot projects in the modern enterprise system. A number of transportation companies should conduct experiments as corporations; they may issue shares to the public. For the moment, we should concentrate on doing a good job in making an inventory of the assets of state communication enterprises, registering and delineating property rights, and evaluating properties in order to lay a foundation for the creation of a modern enterprise system.

### Land and Sea Transportation on Threshold of New Stage Of Across-the-Board Development

Today the volume of passenger and cargo traffic carried by vehicles and ships already accounts for 89.1 percent and 83.9 percent, respectively, of the total volume carried by the five forms of transportation. Vehicular transportation and shipping occupy an important place in the transportation system as a whole.

#### Highway transportation.

In China there already exist the rudiments of a network of major highways significantly improving the condition of passenger and cargo transportation. As of late 1993, 1.1 million km of highways were open to traffic nationwide, 8,500 kilometers of them being Class 2 high-grade highways and above that are limited to vehicular traffic. In particular, China now boasts more than 1,100 km of expressways, which epitomizes the modern highway. All county towns, 97 percent of townships, and 78 percent of administrative villages are now accessible by road. Modern bridges too are being built one after another. Right now there are 180,000 bridges in China of all kinds and shapes. The development of a variety of trucks has been most rapid. The number of privately owned vehicles in the nation has topped 8 million.

#### China's Ocean-Going Fleet 9th Largest in World

Turning to shipping, China's coastal ports have taken on a brand-new look, with over 340 deep-water berths capable of accommodating vessels up to 10,000 tons and more. There are 110,000 km of navigable inland waterways, including 5,800 kilometers navigable by 1,000-ton vessels and 11,000 km navigable by 3,000 to 5,000-ton vessels. There are almost 400,000 privately owned vessels with a combined deadweight tonnage of 40 million. At present China boasts a formidable fleet of ocean-going cargo ships, the ninth largest in the world, with a combined deadweight tonnage of 20 million.

Nevertheless road transportation in China is still fraught with problems, primarily the limited mileage of roads open to vehicular traffic, the low technical level of the infrastructure, the extensiveness of mixed transportation, and the poor technical condition of the vehicles, all of which have diminished the social and economic benefits of road transportation. Problems in water-borne transportation include the following: Coastal ports do not have enough handling capacity, inland ports remain fairly backward, most inland waterways are in a natural state, and old and dilapidated vessels still account for a significant portion of all vessels.

On the reform front, communications agencies in China have sought to zero in on the problem of over-centralization in the old system and achieved a considerable measure of success. To begin with, the shackles of a single ownership system have been broken. Instead of the communication sector monopolizing public transportation, now a variety of economies have entered the

business. All trades and industries in society are allowed and encouraged to enter the business of transportation and communication. As of this writing, there are 4,100 inland shipping companies, 1,300 coastal shipping companies, and 190 international shipping companies. Ships owned and operated by private individuals amount to 5.7 million deadweight tons, 14 percent of all shipping capacity. There are 1.04 million privately owned and operated vehicles, 13 percent of all vehicular transportation capacity. Second, the methods of transportation management have been reformed. In accordance with the principle of keeping a tight grip on the macro-economy while vitalizing the microeconomy, we have delegated some management power and gradually narrowed the scope of planned transportation as well as its share of the transportation industry as a whole, relying more and more on market regulation instead. Third, we used to depend solely on investment by finance departments at all levels to fund transportation development. Now we have risen above that limitation and opened up a host of fund-raising channels. Fourth, we have worked hard to energize state transportation enterprises by giving them a series of decision-making powers, thus paving the way for the transformation of the enterprise operating mechanism.

#### Shenyang-Dalian Highway Generates Prosperity

*Beijing JINGJI RIBAO in Chinese 4 Aug 94 p 1*

[Text] The Shenyang-Dalian expressway is well-known as "Shenzhou's first road" and after nearly four years of operation, it is clear its construction not only fit the highway transportation needs of the entire Liaoning Province and the Liaodong Peninsula areas, but also created new economic development zones with the Shenyang-Dalian expressway as the axis. It established a golden passageway for opening up to the outside world and spurred economic construction and social growth in the entire region. The expressway is 375 kilometers long, joins five major cities—Shenyang, Liaoyang, Anshan, Yingkou, and Dalian, and links up three major ports—the ports of Dalian, Yingkou and Bayuquan. It is currently China's longest and least expensive highway, costing a total of 2.2 billion yuan. The expressway saved money, but what caught people's attention was the economic and social benefits realized. The economic returns from the expressway are very impressive. Based on briefings, the Shenyang-Dalian expressway, which was originally expected to recoup its capital outlay in 20 years, could recoup its entire costs within 10 years. Income from tolls have increased year after year. Through the end of June, recoup funds of 486 million yuan have been collected, giving it the ability to pay back all of the credit. Also, starting this year, it is expected that 100 million yuan from the yearly revenue from tolls could be invested in other high grade highway projects. The amount of traffic is already 50 percent above designed capacity and is increasing at an average rate of 25 percent a year. The indirect economic returns from the time and energy saved by cars could reach 450

million yuan every year, and in five years could match the entire cost. A main traffic artery has been built and the face of traffic in Liaoning has taken on an entirely new look. When the Shenyang-Dalian highway first opened, people merely felt it would greatly shorten the distance between Shenyang and Dalian. The sudden appearance of expressway economic zones along its route and in surrounding areas and the social benefits of this highway has focused people's attention on the following: The Shenyang-Dalian expressway is the center for economic growth in Liaoning and is the key zone for the growth in reforms in the area. In the past, numerous cars from all directions squeezed onto the weak transportation line, causing traffic in Liaoning to be in a harried state for a long time. The construction of the expressway greatly improved the economic and investment environments in this area. The volume of goods handled in Dalian and Yingkou harbors decreased 20 and 70 percent, respectively, because of the Shenyang-Dalian expressway. The amount of goods sent on the Shenyang-Dalian railway changed from increasing to decreasing, with 350 container cars operating throughout the year. The number of passengers transported also showed a rapid downward trend so the railway eliminated one passenger line. Presently, passenger trains on the entire line operate at a fixed 550 runs per day. Expressway economic zones suddenly appeared along the route. After the expressway opened, 20 large county fair trade markets of various types, like those in Xiliu, were successively expanded on and built along the route. Township and town enterprises flourished all over the place. At the same time, with the convenient traffic conditions of the expressway, 85 development zones of various types were built along the route after the three national-level economic development zones—Shenyang, Yingkou and Dalian—were established. There are 201 of the three kinds of enterprises that are either partially or wholly foreign-owned. The actual amount of foreign capital used by the five cities along the route increased rapidly and the yearly rate of increase reached 48.5 percent. In 1993, over 42 billion of foreign capital was attracted. Based on research by relevant departments: In 1992, the gross national product (GNP) of the five cities along the route was 78.51 billion yuan, accounting for 60 percent of the entire province, a 20.7 percent increase

from before the expressway opened. Utilization of foreign capital by the five cities was \$960 million, a 40.4 percent increase from before the expressway opened, accounting for 82.56 percent of the entire province. In 1989, the GNP for economic development zones within a range of 50 kilometers along the route was 21.33 billion yuan, constituting a 23.1 percent proportion of the entire province. Through 1992, the GNP for this area reached 40 billion yuan, accounting for 30.8 percent of the entire province. The gross value of industrial and agricultural output was 65.2 billion yuan, constituting 27.9 percent of the entire province. The value of exports delivered by township and town enterprises was 1.62 billion yuan, an increase of 85 percent from 1991. Presently, this province is planning to establish this area as an area with an advanced export-oriented economy, where township and town enterprises are dominant, an area for comprehensive agricultural growth and an area with pluralistic commodity circulation.

## Agricultural

### Analysis Views Shaanxi Province Farm Prices

94CE0652A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 7, Jul 94 pp 14-18

[Article by Guo Zhijun (6753 3112 6874), Zhang Jianmin (1728 1696 3046), and Xiong Jingzhao (3574 4842 5128), the Shaanxi Provincial Commodity Price Research Institute: "Prices for Industrial and Agricultural Products in Shaanxi Province—The State of the Price Scissors—Problems and Countermeasures"]

#### [Text] 1. Present Condition

In recent years, all prices have been going up in Shaanxi Province, whether retail prices for industrial products for agricultural use, or procurement prices for agricultural products, the difference between the two kinds being that retail prices for industrial products for agricultural use have been going up year after year, and in fact at a high rate, while the procurement prices for agricultural products had gone up four times and come down one time, but with yearly increases less than those for industrial products, excepting only 1992, when these prices rose at a higher rate than increases of prices for industrial products.

**Table of Indices for 1989-1993 Retail Prices of Industrial Products for Agricultural Use and Procurement Prices for Agricultural Products in Shaanxi Province**

Items	1989	1990	1991	1992	1993
Indices of Retail Prices of Industrial Products for Agricultural Use	122.7	102.8	102.8	104.3	111.8
Indices of Procurement Prices for Agricultural Products(%)	111.0	100.3	98.2	106.2	111.3

Using data of the above table, we see that indices for the composite ratio of prices for industrial and agricultural products during 1989-1993 in Shaanxi had been 110.5, 102.5, 104.7, 98.2, 100.4 percent, respectively. This means that the gap between the indices for the composite ratio of prices widened during the first three years and slightly retracted during the latter two years. This retraction was due to decontrol of grain and edible oil prices.

Using the same data and computing for the whole five-year span, we see that procurement prices for agricultural and sideline products had risen a total of 29.2 percent, at a 6.6 percent rate of average annual progressive increases, while the retail prices of industrial products for agricultural use had risen a total of 51.2 percent during the same period, at a 10.9 percent rate of average annual progressive increases. During the five-year span, the price differential between industrial and agricultural commodities had thus widened by 16.9 percent, or at an annual average rate of 3.3 percent. That means that in 1993 an equivalent amount of agricultural products could in exchange obtain only 16.9 percent less industrial products than in 1988. This is the present condition of the price scissors effect in Shaanxi Province.

The widening of the differential in composite comparative prices for industrial and agricultural products leaves the peasants in an unfavorable position in all exchanges. Not only does this have a detrimental effect on peasant income and peasant consumption, but it also adversely affects the rural markets and peasant investments in agriculture. Taking province-wide procurements of agricultural and sideline products during 1993 into account and calculating the total amount of retail sales of means of agricultural production and retail sales of rural consumer goods, the peasants will have lost, due to the 16.9 percent widening between composite comparative prices for industrial and agricultural commodities, almost 3.1 billion yuan. During the said five years, living expenditure income of the urban population rose on the average from 1,148 yuan in 1989 to 1,920 yuan in 1993, a net increase of 772 yuan and an aggregate increase of 67.2 percent, or a rise at the rate of 13.7 percent of average annual progressive increases. On the other hand, the average net income of peasants during the same period had risen from 500 to 653 yuan, a net increase of only 153 yuan, an aggregate increase of 30.6 percent, and a rise at the rate of 6.9 percent of average progressive increases. Comparative figures for urban and rural population incomes during the five years, taking peasant average net income as 1, would be 1:2.3, 1:2.4, 1:2.6, and 1:2.9; the rapid rise of prices for agricultural means of production caused agricultural production costs to rise and profits to decline. According to a cross-section investigation by a relevant agency in the three counties of Jingyang, Xunyi, and Baoji, grain production could be a breakeven operation, without counting investment of labor, but the addition of 5 yuan per man-day would result in losses in all three counties. Affected by the declining level of peasant incomes, the proportion of rural market sales within the total amount of sales of

social commodities throughout the province gradually declined over the years: in 1989 it was 42.3 percent, in 1990 41.3 percent, in 1991 40.6 percent, in 1992 38.9 percent, and in 1993 25.7 percent. In five years it declined by 16.6 percentage points; peasant capability to invest in agriculture weakened, and the amount of purchases by peasant capital declined. During five years, cultivated acreage throughout the province declined 2.4 percent, while purchases of chemical fertilizer declined from 2.376 million tons in 1989 to 2.043 million tons in 1993, a decline of 14.1 percent; in 1993 it declined 19.5 percent compared to the preceding year. Purchases of plastic sheets for agricultural purposes declined from 6,839 tons in 1989 to 5,000 tons in 1993, a decline of 26.9 percent, in 1993 it had declined 32.5 percent compared with the preceding year.

## 2. Main Reasons

There are many reasons for the widening gap between the comparative prices for industrial and agricultural commodities, but the main reasons, according to an analysis of the actual conditions during recent years, are the following:

1) Increases occurred at different frequencies. During the five years, retail prices for industrial products for agricultural use increased year by year, the highest rate being 22.7 percent, and the lowest rate 2.8 percent, while the procurement prices for agricultural products had declined in 1991 by 1.8 percent, and had increased in the other years, the highest at the rate of 11.3 percent and the lowest at the rate of 0.3 percent. At the highest rates, industrial products had increased at 11.4 percentage points more than agricultural products, and at the lowest rates, industrial products had increased by 2.5 percentage points over agricultural products. These are direct causes for the widening gap between comparative prices for industrial and for agricultural products.

2) Differences in the organic structure of funds. Industry produces by means of large machinery, while agriculture is an extensive operation. The great difference in production methods causes industry to be far superior to agriculture in its organic structure, in the larger scale of investments in fixed assets, has higher costs of training personnel, larger technological components, and all these elements will become materialized in the products and will have to be compensated by the prices of products, which of course causes industrial product prices to rise faster than prices for agricultural products.

3) Differences in labor productivity. From 1989 to 1993, the average per person social labor productivity in Shaanxi was 4,056 yuan, 4,659 yuan, 5,348 yuan, 6,039 yuan (1993 figure missing); average per person labor productivity in industry was 22,648 yuan, 22,748 yuan, 24,339 yuan, 26,744 yuan, and 29,848 yuan; average per person labor productivity in agriculture was 1,278 yuan, 1,413 yuan, 1,470 yuan, 1,597.4 yuan, and 1,993.4 yuan. Not only was labor productivity in agriculture far below that of industrial labor productivity, but also much lower than social labor productivity. Taking 1992 as example, agricultural labor productivity was only 6 percent of

industrial labor productivity and 26.5 percent of social labor productivity. During the five years, the ratio—taking agriculture as 1—essentially maintained a rate of from between 1:15.4 and 1:17.7. In other words, the value created by one unit of industrial labor was equal to the value created by 15 units of agricultural labor. This shows the huge difference in inherent value of the products of industrial labor as against agricultural labor, and this difference will also, without exception, be evident in the exchange prices of the commodities. This is the true reason why peasants would feel that in the exchange of industrial against agricultural products, agricultural products will price-wise be in an unfavorable position.

4) Differences in the operational mechanism. After 10-odd years of reform, industrial products for agricultural use are completely market involved, and prices for every link in the distribution chain are market regulated; changes in value and in the supply-demand relation can flexibly be reflected in the prices. On the other hand, the mechanism for the price formation of agricultural products is different, the marketing sector is market regulated, but the procurement sector operates basically by plan regulation, or is only nominally free but actually controlled. There are of course reasons for this approach, but objectively it restricts flexible changes in purchasing prices of agricultural products (or producer prices), and as a consequence causes a widening of the gap in comparative prices of industrial and agricultural products.

5) Differences in policy tendencies. For a considerable length of time after the founding of the People's Republic, the state used agricultural accumulations as initial capital to start its industrialization and invested agricultural profits in industry by exchanging industrial and agricultural products at nonequivalent prices. Later, the state again gradually reduced the ratio of its investments in capital construction projects in agriculture.

During 1950 to 1988, the cumulative average ratio of capital construction investments in industry and agriculture in Shaanxi—taking agricultural investments as 1—was 1:9.7. It had been 1:16.1 in 1992 and had come down to almost half. During the price reform, prices for industrial products were raised at a higher rate than for agricultural products because higher prices for industrial products brought increased revenue, while raising agricultural prices could only increase fiscal expenditure. Thus, historical and practical reasons, directly or indirectly, brought about the widening of the gap in comparative prices for industrial and agricultural products.

### 3. Difficulties and Measures To Cope With Such

Narrowing the price scissors is a difficult task which the government has set for itself. It can be said that from the time when industry was split off from agriculture we have had the problem of the price scissors, it was only that no one before Stalin summed it up that way. At the present stage, as long as production methods and conditions cannot possibly be run along the same lines, the price scissors cannot be radically eliminated. It is therefore said that the existence of the price scissors is something absolute and long-term, and that narrowing the price scissors is something relative and temporary.

There are presently many difficulties in resolving the problem of the price scissors:

First, there is little room to maneuver in the adjustment of purchasing price for agricultural products. With the decontrol of markets, the upper limits to which purchasing prices of agricultural products can be raised are determined by prices on the international market. If raised above international market prices, imports will increase and agriculture in the province will wither. We can see from data of January this year that there is little room to maneuver when it comes to raising purchasing prices for agricultural products.

Comparison of January 1994 Prices for Main Agricultural Products

Products	Quantity	Provincewide Prices	Nationwide Prices	Internat. Market Prices
Wheat	50 kg	40 yuan	41 yuan	50 yuan
Corn	50 kg	37 yuan	38 yuan	34 yuan
Cotton	dan	410 yuan	410 yuan	590 yuan

After another adjustment this year of prices for main agricultural products, prices for both wheat and corn had risen high above international market prices, only the price for cotton was 26.7 percent below international market prices. It shows that it would be unrealistic to pin hopes for a narrowing of the price scissors on a constant raising of purchasing prices for agricultural products.

Second, prices for industrial products have a certain rigidity. That constitutes a difficulty for narrowing the price scissors in that it as much as blocks the way to any reduction of the price scissors. Otherwise the way would have been to maintain agricultural prices and narrow the

price scissors by reducing prices for industrial products. Under normal conditions, prices for industrial products can only go up, they cannot come down. This rigidity is determined by the limited amounts of means of industrial production and the progressive increases of workers' incomes.

Third, the low level of income of the urban population. This serious restrictive condition determines that in the question of narrowing the price scissors it is not possible to do it by raising prices for industrial products and at the same time, and at a much larger rate, raise purchase prices for agricultural products.

Fourth, lack of financial support. Shaanxi's finances are in a straightened condition, its "financial sources" have dried up, and the province lacks financial strength to support agriculture. In 1993, the province incurred a deficit of 1.14 billion yuan, and its accumulated deficit, together with various debts, has reached a total of 3 billion yuan. In addition, during the reform of the financial and tax system, such "financial sources" that used to come from tobacco, wine, and electric power, had been moved away, while creating new "financial sources" would take a very long time. Presently available financial resources will make it difficult to maintain the 12 percent ratio of total financial expenditure for the support of agriculture, as had been provided in the last few years. To pin hopes on public finance to fix supportive prices for agricultural products to narrow the price scissors of comparative prices in the exchanges of industrial and agricultural products is hoping for something that can hardly be brought about.

From the above sketchy analysis of difficulties we can see that the various traditional methods of the past to narrow the price scissors have been ineffective.

Where then is the way out? With some few comparisons we can get an answer to the question. Under conditions that had been similar to those of the price scissors, why is there no loud complaint voiced by the rural population in the economically more developed coastal regions? Gaoling is a main grain producing county of the Shaanxi Province, grain prices have repeatedly been raised, why can it still not yet escape from a state where it is labeled a high producing poor county? The evidence of these two examples, one positive and one negative, tells us that only by disentangling oneself from the fetters of the price scissors, by a comprehensive development of the rural economy, by reducing the disparity between city and the countryside, can this problem be solved.

1) Relocating surplus rural manpower and raising labor productivity. Up to 1993, the province had an agricultural population of 27.324 million, while arable land was 51.878 million *mu*, or an average of 1.9 *mu* per person. Having so large a rural population relying on so limited an area of land is cause not only for a huge army of surplus manpower, but also for the decline of labor productivity in agriculture. As we have to figure that each unit of manpower requires at least 6 *mu* of land, the present acreage of the province would require only 8.646 million units of agricultural manpower, thus leaving a surplus of 4.31 million, which amounts to one-third of the manpower. Development of the rural economy, raising agricultural labor productivity, and narrowing the gap between city and countryside, would therefore make it essential to gradually relocate the surplus manpower and to encourage them to transfer to the secondary and tertiary industries in agriculture.

2) Speedier buildup of small towns and townships in the rural area, spurring on comprehensive development of the rural economy. Presently, China's economic development provides a rare opportunity to speed up the

buildup of small towns and townships in the provinces of the interior. From the economy of the interior to the coastal economy and again to world economy there is a gradient time differential. With the passage of time, and as the economy developed, those areas which had earlier industrialized will have their industries inevitably develop toward fields of high technology and high added value, and as a consequence all labor-intensive industries will gradually move from the coastal regions to the interior. Shaanxi Province should consider this an opportune moment to attract projects and funds, and through the large-scale development of town and township enterprises and through allocation of parcels of land for various types of small modern industrial zones, develop small towns and townships at certain key points in the rural area, and thereby promote economic development throughout the entire rural area.

3) Energetic development of town and township enterprises, let industry support agriculture. Agriculture is a declining industry, and with only limited support from local public finance, the only field for positive action left is development of town and township enterprises in the rural areas. After many years of development, the total output value of town and township enterprises in Shaanxi Province, by 1993, had reached 37.2 billion yuan, an increase of 48.2 percent over 1992, with a growth rate that is by far in excess of that of enterprises operated in Shaanxi either by the central authorities or by the province itself. The output value of the said town and township enterprises accounts for 56.6 percent of the output value of the entire rural economy. Average per capita income earned by peasants working in the enterprises is 116.47 yuan, which accounted for 17.8 percent of net peasant income. Practice has proven that wherever town and township enterprises have flourished, the city-countryside gap has narrowed. It is only regrettable that compared with the coastal regions there are still not enough town and township enterprises in Shaanxi, that they are still of too small a scale, and that economic returns are still unsatisfactory; there are still too many blanks. It is therefore necessary to raise funds through many channels, continue to exert great effort in the development of town and township enterprises, and to thus constantly enhance the strength of the rural economy. It is necessary to determine on plans, level by level, to implement measures, to initiate household operations, joint household operations, village- and township-run operations, joint ventures, partnerships, have many wheels turning and operate on several tracks at the same time. We must energetically develop first-class products for export, which will earn foreign exchange and must have competitive strength in the market. We must strive to achieve during one or two years an annual output value of town and township enterprises throughout the province that will exceed 70 percent of the total social output value of the rural area. Only by successful development of town and township enterprises will it be possible to provide agricultural development with a reliable support.

4) Development of diversified operations, achieving high efficiency in agriculture. According to the division of economic zones due to natural conditions, the central Shaanxi plain, South Shaanxi, and North Shaanxi must pay particular attention to a division of labor in agriculture. Measures must suit local conditions in the overall development of farming, animal breeding, animal husbandry, and of forestry. Continued efforts must be directed toward turning more agricultural products into commercial commodities. In 1993, income from commodity-type products accounted for 61.8 percent of the total income of Shaanxi peasants, and an unduly high proportion was taken up by income from sales of farm produce in kind. This explains the underdeveloped state of the commodity economy in the rural areas. The way to increase commercialization of agricultural products is to gradually establish a service system for production, processing, and marketing, and to improve the whole line of services for wider use of technologies in agriculture, for the breeding of better strains, for assured supplies to agriculture, and for the marketing, storing, and preservation of products after production. It is also necessary to develop an agriculture of high efficiency, to raise per unit area yield of grain production, and to vacate some acreage for the development of cash crops. In 1993, Shaanxi had 5.09 million mu of apple orchards with a total production of 1.3 million tons, the province thus ranking first throughout the nation in the per capita acreage and output of apples. Net after-tax income from apples per mu is several hundred times higher than from grain. All localities should emulate Liquan County in the way they arranged grain production in relation to cash crop production, as it instituted diversified operations and raised peasant income; that is the way to eliminate the price scissors between industrial and agricultural products and to eliminate the disparities between industry and agriculture, between city and countryside.

5) Perfecting the market system, ensuring stable development of agricultural production. Agriculture is the primary industry of Shaanxi Province, with 80 percent of its population working in agriculture. The government should therefore place agriculture in an important position, and should protect and support it. At present, we not only have to deepen the reform, but at the same time to transform the price formation mechanism for agricultural products, to actively foster and perfect a market system for agricultural products, especially also to speed up establishment of wholesale markets and futures markets, and thereby to reduce the risks in agricultural production. Starting out from protecting the long-term interests of the peasants, it is also necessary to gradually establish an important system of regulation and control to meet the needs of market economy. First, establish for important agricultural products a system of storage, of purchases in larger fixed quantities, of fixed periodic reserves, of seasonal handling, of a supply-demand balance, which, on the one hand, will prevent "having the farmers suffer from too low grain prices in good years," as it will also prevent "having the people suffer from too high prices in lean years." Second, establishing a system of risk reserve funds for agricultural products, reducing the price risks for agricultural products to a minimum, and protecting the production enthusiasm of the peasants. Third, establish a system of special regulatory funds earmarked for regulating prices for means of production, also to regulate the prices for such key elements as superior seeds, chemical fertilizer, pesticides, agricultural plastic sheets, and to ensure implementation of various kinds of price limits, thereby reducing any adverse effects that price rises could otherwise have on the cost of agricultural production.

#### **Heilongjiang Reports Rural Savings**

94CE0671K Harbin HEILONGJIANG RIBAO in Chinese 8 Aug 94 p 1

[Summary] At the end of June, rural saving deposits in Heilongjiang Province totaled 17.831 billion yuan.

### Article Explains Rampant 'Superstitious' Activities

94CM0367A Beijing RENMIN GONGAN BAO in Chinese 16 Jul 94 p 3

[Article by Bai Wanyin (4101 8001 6892): "Modern Superstitions Emerge"]

[Excerpts] In recent years, feudal superstitious activities such as fortunetelling, exorcisms, praying to spirits or Buddha, and visiting graves to burn paper offerings have become commonly seen in both the modern cities and the remote countryside. Some people with illnesses do not go to doctors but seek out witchcraft practitioners for the exorcism of bad spirits. Some young people seek out fortunetellers to examine the "eight diagrams of their birthdate" before applying to schools, seeking employment, or getting married. An auspicious date must be chosen for each wedding, business opening, or move. Some people building houses first invite a "geomancer" to choose a "site with auspicious geomancy." Lucky numbers must be chosen for automobile license plates and telephone numbers.

Physiognomists, handwriting fortune tellers, soothsayers and "fairy lady" activities are often seen on both sides of a bustling commercial street in a certain city. For the expense of only two to three yuan, one can get an immediate prediction on one's life expectancy, when to expect the ups and downs of fortune during one's life, etc. The onlookers gathered around include government cadres, workers and university students. There are university students getting their fortunes told the night before receiving their post-graduation job assignment. The male students ask about their job assignments and their careers. The female students ask about their marriage partners and their fates. One female student asked for her fortune in romance. When she was told that her boyfriend would be unfaithful she vowed, "I will never fall in love and I will never get married!" [passage omitted]

In the last few years, this writer has traveled to many places throughout the country. In every place toured, in front of the incense burners of every Buddhist temple, nunnery or Daoist temple, there was an endless stream of people kneeling to pray to the Buddha or beseech the gods for protection. The thick smoke of incense burning trailed in and around every temple and shrine. Not only illiterate old peasant women knelt in front of the carved clay or wooden images of spirits. There were even greater numbers of educated, informed young people and even university professors, officials and technology workers. [passage omitted]

Modern superstitions and ancient superstitions have combined together and are naturally evolving in a negative fashion. A prominent demonstration of this is that temples and Daoist shrines have become the places that the people look to for spiritual life. Hence, a trend to build temples and beseech Buddha has sprung up in

certain places. One day in a remote mountainous area, five "capable people" flew a banner saying "building a temple will gain merit." They spread the word everywhere. "We are poor mainly because we lack the protection of the gods." The local people responded and within two months raised 33,000 yuan. At the end of the year they carried out a major construction project. Over 100 volunteer laborers working day and night built a seven story temple 21 meters high, 14 meters wide and 40 meters long. [passage omitted]

Ignorance was the fertile ground for ancient superstitions. Modern superstition is mixed up with money, power and influence, history, culture, religious belief, folk customs and fantasies, and even science and technology. This confuses people. Many places include fortunetelling as a "product of science and technology." In Hecheng one can see "computerized fortune-telling." If you pay two yuan and give your birthdate, several seconds later the computer will print out text on your personality, future career, and marriage. Some publishing houses and illegal commercial agents have wantonly published and marketed large quantities of "Palm Reading and Life," "Astrology and People" and "The Eight Diagrams and Fortune Telling" and other books spreading feudal superstitions, all under the banner of "carrying on the heritage of China" and "the latest scientific development." [passage omitted]

Currently, there is a new type of superstition which has become the rage without any political exhortations. This is the use of large amounts of money to purchase auspicious numbers - a crazy commercial superstition.

At 8 a.m. on May 18, firecrackers popped like waves of thunderstorms in many places. People opening businesses, holding ceremonies, or moving all rushed to this date for no other reason than that this date is auspicious—five-one-eight sounds like I will get rich! In recent years, the number "8" has leapt in status a hundred fold as a "number commodity." If a telephone number or an automobile license plate has the number "8," it doesn't matter how high the price, people will buy it. A "dageda [cellular phone]" number "90888 (get rich in the 90's)" changed hands for 200,000 yuan. Not long afterward, this record was increased in some places up to 300,000 yuan. [passage omitted]

Superstition is always connected to tragedy.

The People's Court in a certain county heard a robbery case not long ago which was both ordinary and bizarre. The accused, a Mr. Liu, had committed five robberies, stealing items worth a total of over 1,300 yuan. When the judge asked him for his motivations in this case, he answered quite frankly, "over ten years ago, a fortune teller told me that I would experience a great setback, even to the point of wearing handcuffs, before my life would take a turn for the better." He believed that this was the truth, so he stole again and again, until he was sentenced to two and one half years in prison.

There are deep economic factors underlying superstitions. Witchcraft doctors, soothsayers, and fortune tellers can earn around ten yuan per day without getting up early or exerting much effort. It is not difficult to earn three to five hundred yuan a month! There is a 41 year old cripple named Wang Xinghai in a certain place. Since 1987 he has been "holding court and telling fortunes." Before long, this person who used to live on welfare became miraculously wealthy. His family built a two-story stone house. When the local Public Security Bureau took legal action against him recently, they confiscated over 24,000 yuan from him.

Why are superstitious activities so persistent?

Ignorance probably is a major reason. Some people do not understand the rational of science. Feudalism binds their hands and feet. They worship spirits and ghosts. I had a relative who was a worker. A few days ago he had his fortune told. He was told that he would not live past August (of the lunar calendar). He obligingly hanged himself in mid-August. There was an old lady who had a son and a grandson who were frequently ill and had weak constitutions. She went to a witch doctor for a cure and was told that her son and her grandson were facing great calamities. If someone would stand in for them they could be saved. She believed this unquestioningly and swallowed agricultural chemicals to sacrifice herself for her son and grandson. There was a woman who knelt many times at the temple, offering incense and reading the scriptures in a plea to the gods to make her days go well. One evening, she tossed and turned and could not sleep. She kept thinking that a spirit was telling her that "your daughter has two hearts. If you do not eat one of them, within three days, the people in your family will die and your property will be lost." She thought that this was the goddess giving her a message and on the next day cut open the chest of her one and a half year old sleeping daughter...

This is not alarmist talk. These are real life tragedies! Tragedies brought about by ignorance!

When belief and worship sink to blindness, it is superstition. Although superstition and belief are both spiritual phenomena of society, the former is irrational submission and the later is rational pursuit. A wavering or a crisis in belief will cause a slide into the pit of superstition. When no hope is seen in this life, then people look to a future life. When living people seem unreliable, then people look to spirits and ghosts. Fantasy releases people from the hardships of real life and allows people to place their hopes in illusions. [passage omitted]

#### Causes of Worsening Social Order in Countryside

94CM0377A Nanchang JIANGXI RIBAO in Chinese  
25 Jul 94 p 7

[Article by Chen Zhike (7115 3112 4430): "Some Reflections on Improving Social Order in the Countryside"]

[Excerpt] In 1993, crimes among the rural population accounted for 64.9 percent of all crimes committed throughout the nation, an increase of 1.5 percent over 1992. In 1993, crimes committed by the rural population of Jiangxi Province accounted for 61.8 percent of all crimes committed throughout the province, a 1.3 percent increase over 1992. During January to May 1994, crimes committed by the rural population accounted for 63 percent of all crimes committed throughout the province, an increase of 2.8 percentage points over the corresponding period of last year, and placing that group at the top of all other population groups. It is therefore necessary to continue vigorous efforts to establish social order in the countryside, a matter that must definitely not be taken lightly.

There are the following reasons for this conspicuous problem in rural social order:

Adverse effects of changes in the structure of rural production. Introduction of the output-related system of contract responsibility in the rural areas had resulted in major changes in the social and economic structure in the rural areas, and this, in turn, has given rise to several new social problems. For instance, the tremendous increase in the floating population, comprised of surplus rural manpower, has provided opportunity for some idle people, who like to take it easy and disdain work, to commit crimes. After the family had become basic production unit, lateral relations of household to household and household to collective had greatly increased, had become more complex by the day, and had finally resulted in a continuous increase in disputes. With the inequality between rich and poor, the poor have become envious of the rich, and this sometimes degenerated into criminal acts against the rich, such as theft, robbery, extortion, and blackmail.

There has been a slackening in efforts toward building up the spiritual civilization, and self-control among the rural population has weakened. Following the introduction of the contractual responsibility system, some places had interest only in the buildup of the material civilization, neglecting spiritual civilization, and villages and townships seldom arranged for political studies. Because peasants themselves have a rather low perception of the law and also a rather low measure of general education, some cannot resist the temptation of evil thoughts and influences, which then frequently leads to the commission of crimes.

A small number of basic-level cadres and law enforcement personnel in the rural areas commit serious acts of bureaucratism and corruption. Some basic-level cadres and law enforcement personnel, paying no attention to the interests of the peasants and relevant policies of the central authorities, will still indiscriminately collect dues and fines, willfully adding to the burdens of the peasants. When their work concerns the interests of the peasants, some cadres will oversimplify procedures, assume a rude attitude, even go so far as to unlawfully arrest people,

beat and scold the masses, which all leads to a sharpening of the contradictions and to the commission of very serious crimes. A small number of basic-level rural cadres and law enforcement personnel are corrupt and accept bribes, they practice favoritism and engage in other evil practices, which also generates resentment among the peasants.

Some of the local leadership in party and government do not sufficiently attend to social order affairs in the rural areas. Manifestations of this are: Ineffective basic organization, insufficient pressure to accomplish essential work at the basic level, overall control measures are not being fully implemented where needed. In the way work is performed, there is a lack of a broader concept, attending to security whenever a case comes up, but never placing social security on the order of the day of the party committee and government, an attitude which has had an adverse effect on the fruitful implementation of remedial measures.

Insufficient force applied by state and judicial organs to the war against crime, low warning and deterrent effects. The rate of cases being brought to justice by the public security organs is rather low, and in too many cases a fine is substituted for criminal punishment, whereby some criminal elements escape due punishment. The rate of arrests ordered by the procuratorial organs is low, and the rate of cases concluded by the adjudicating organs is not high. Supervision and control by organs in charge of reform through labor and rehabilitation through labor is not strict, etc.

### Poll on College Students' Ideological Orientation

94CM0377B Guiyang GUIZHOU RIBAO in Chinese  
10 Jul 94 p 7

[Article by Liu Chaobu (0491 2600 4310), Liu Minghua (0491 2494 5478), Yang Jianjun (2799 1696 6511): "Investigation and Analysis of the Present Ideological State of University Students"]

[Excerpts] Recently, we instituted a survey by means of questionnaires among 400 university students of higher and lower semesters in seven departments of institutions of higher learning. In the survey we were supported and helped by the propaganda department of Guizhou Normal College and its Youth League party committee, and we worked under the specific guidance of the general party branches in the departments of political education, foreign languages, biology, and mathematics. Understanding the students' views on politics, motivation to join the party, thoughts on their special fields of study, collective consciousness, lifestyle, human values, and the relationship between studies and earning money is undoubtedly of value to know the present ideological attitudes of university students.

"Do you pay attention to current affairs and politics?" Answering "yes" 210 students, i.e. 53 percent; answering "occasionally" 82 students, i.e. 21 percent; answering

"no need to pay attention" 11 students, i.e. 3 percent; answering "want to pay attention, but cannot due to circumstances" 111 students, i.e. 28 percent.

"What motivates your fellow-students to want to join the party?" Answering "making an effort to join the party for their own advancement" 209 students, i.e. 52 percent; answering "because it will benefit their future assignments" 148 students, i.e. 37 percent; answering "wanting to become officials" 62 students, i.e. 16 percent; answering "for the sake of their reputation" 42 students, i.e. 11 percent; answering "because of a momentary enthusiasm" 18 students, i.e. 5 percent; answering "applying for party membership forced by environmental pressures" 32 students, i.e. 8 percent.

When asked "in your opinion, what vivid, diversified, rich and colorful forms ought to be used in the education on current affairs, politics, and ideology," they listed the following items: movies, television, videotapes, symposia, social practice, current affairs forums, debates, photo exhibitions, excursions, and inviting in outsiders. They had been deeply impressed by the speeches of Bo Chunli [2672 2504 4409], Xu Heyi [1776 0735 6146], and Li Weihua [2621 5896 5478], who spoke, using their own experiences as examples, at the recent "All-China Young Cadres Accomplishment Through Training" public lecture.

When asked to express their views on the phenomenon that "when hiring staff and workers nowadays, many fully foreign financed or joint venture foreign firms prefer party members, especially young workers in the field of science and technology," the opinion of most students was that this was a manifestation of the exemplary vanguard role of party members, and that it is also an indication of the strong vitality of the party. However, there were also some fellow-students who expressed doubt and believed that it was propaganda with a political purpose, and it had no general validity.

Asked "how do you view the special fields of study of present-day students?" answering "a good general school is not as good as a good vocational school" were 189 students, i.e. 47 percent; answering "economics and applied sciences are most popular, while literature, history, and philosophy are unpopular" were 116 students, i.e. 29 percent; answering "trying to go in for a second specialty [in addition to the humanities] to get a specialty diploma in a popular field, so as to have good future prospects," were 108 students, i.e. 27 percent; insisting on "selecting a specialty and going with the popular tide" were 128 students, i.e. 32 percent; believing "without the foundation of literature, history, and philosophy, one cannot go in for any kind of specialty studies" were 119 students, i.e. 30 percent.

On being asked "what kind of lifestyle do you regard as admirable?" answering, believing it should be "quiet and simple, a completely untrammelled life" were 65 students, i.e. 16 percent; believing it should be a "constant struggle for the cause, opening up new fields, and risking

dangers, this would be a life of endless joy" were 140 students, i.e. 35 percent; proposing "emphasis on usefulness, relying on one's own ability to gain fame and fortune as well as love" were 163 students, i.e. 41 percent; insisting on "having ambitious ideals and the firm will to pursue the truth, caring for other people, assiduously studying, working selflessly, transforming one's ideals into reality" were 108 students, i.e. 27 percent; answering "going one's own way, relying on one's own struggle and pursuit, not obstructing others, but unafraid of obstructions from others," were 200 students, i.e. 50 percent.

"What do you understand as the value of human life"? Answering "the value of a person lies in his contribution to society, and not in getting something out of society" were 84 students, i.e. 21 percent; believing "a person's value is in his contribution to society, but also in getting something out of society" were 259 students, i.e. 65 percent; believing "a person's value is in what he gets out of society" were 17 students, i.e. 4 percent; answering "a person's value is his position and money" were 42 students, i.e. 11 percent; other replies came from 53 students, i.e. 13 percent.

"What about the relationship between studies and making money"? Believing "there is no contradiction between studies and making money, but self being only engaged in studies, do not think of making money" were 19 students, i.e. 5 percent; thinking "first studying, later making money" were 184 students, i.e. 46 percent; believing "studying and making money both are essential" were 144 students, i.e. 38 percent; believing "with the ability and opportunity to make money, a person should make money" were 187 students, i.e. 47 percent.

"What about collective awareness among today's university students"? Believing "they have already lost a collective awareness" were 36 students, i.e. 9 percent; believing "they have essentially no collective awareness" were 37 students, i.e. 9 percent; believing "they long for collectiveness, but there is no collective that will accept them" were 61 students, i.e. 15 percent; believing "that it makes no difference whether there is a collective or not" were 34 students, i.e. 9 percent; believing "every person needs the warmth of a collective, university students must learn to make friends, must learn to care for others" were 285 students, i.e. 71 percent.

"What is your outlook on life"? Believing "life is mutual competition, the survival of the fittest" were 183 students, i.e. 46 percent; believing "selfishness is human nature, in real life every person is selfish" were 88 students, i.e. 22 percent; believing "it is absolutely impossible to live without money, but pure money worship must be opposed" were 205 students, i.e. 51 percent; believing "everybody is subjective as to his own person, objective as to others" were 75 students, i.e. 19 percent; believing "a person should not regard his own interests as primary, but should organically integrate his own interests with those of the collective and of the

state" were 153 students, i.e. 38 percent; believing "the greatest happiness in a person's life is to serve the people wholeheartedly" were 97 students, i.e. 24 percent.

"What about love of university students"? Seeking some refuge, some sincerity in a Garden of Eden, believing "love is the best haven to escape from loneliness" were 130 students, i.e. 33 percent; thinking to find a life's companion "trying out love, testing it awhile" were 59 students, i.e. 15 percent; thinking of love as "getting rid of a craving, seeking to find a partner to form a couple" were 44 students, i.e. 11 percent; answering "not in the mood for love" were 140 students, i.e. 35 percent.

### **Educational Problems of Individual Entrepreneurs' Children**

94CM0378A Harbin FENDOU [STRUGGLE] in  
*Chinese No 263, Jul 94 pp 20-22*

[Article by Yu Shuping (0060 3219 5493) and Zhang Xiaoping (1728 2556 5493): "They, Too, Are Tomorrow's Sun: A cursory examination of the problem of educating the children of individual entrepreneurs"]

[Excerpts] The steady growth of individual private economy has created a new social stratum. Being the very first to join the tide of competitive commodity economy, the families of individual entrepreneurs [IE] also moved from the closed configuration of tradition to a more open orientation, and their peculiar cultural atmosphere, family environment, and superior economic conditions have caused their children to grow up in circumstances so unusual that the effects of society, family, and so on all have profoundly impressed their little minds.

According to a survey of 12 schools in Beijing (including five middle and seven primary schools), IE children accounted for 1.7-9.85 percent of the surveyed grades. And six classes in the 4th, 5th, and 6th grades in a school in Harbin had a total of 351 pupils, of which IE children comprised 47, or 13.4 percent. Of course, these statistics are incomplete, as a considerable portion of the children's parents were unwilling to reveal their IE status. According to relevant statistics, there are nearly 20 million IE children nationally.

What are the conditions of these members of the school yard?

Teachers report that the nurturing and influence of their families have given the vast majority of IE children a stronger understanding of commodity economy and that some are enterprising, aware of competition, and better able to be independent than the children of other strata. Nevertheless, the environment in which IE children live undeniably creates many negative influences.

The first of these is that IE children are careless in spending, a "characteristic" that is widespread among them. Their pockets frequently hold several 10s or even 100 yuan and, when confronted with dazzling array of

snacks, they buy whatever they want to eat, no matter how expensive. They compete with their schoolmates in spending money, dropping 10's of yuan for meals in restaurants and as much as 100 in karaoke halls, which practices frequently serve as display for schoolmates. One child, for example, took several mates to a restaurant frequented by his father, ordered a banquet, and when all had eaten and drunk their fill wiped his little mouth, puffed out his chest, and dumbfounded the waitress: "Call my dad and have him send over a check for the bill." [passage omitted]

The second negative influence is self-centeredness and insistence on having one's own way. Because their parents hustle money night and day and thus have no time to discipline them, IE children have grown accustomed to unrestrained freedom. In school, they reject teacher restraint and control, ignore the collective, refuse to participate in group activity, violate school rules, and even fail to complete homework assignments. When asked by a teacher what he did instead, one pupil who had never done a stitch of homework blurted, "I have to help mom count money and have no time for homework."

IE children have much better food, clothing, and supplies than other kids and thus a sense of economic superiority that makes them haughty and selfish. Excessive permissiveness and indulgence have made these children uncontrollable and often leave teachers at helpless wit's end.

The third negative influence is "money is everything." The money worship mentality rampant in society has seriously corrupted these young minds. Thus, sounds discordant with those of instructional recitation also permeate school yards. Many IE kids develop business acumen at a very young age, selling classmates for 1 yuan books that are supposed to fetch 80 fen; some profiteering from the sale of school supplies procured from wholesalers; and some even peddling toys and New Year cards for their parents. And, while bragging about how much money their families have, they even evidence the tenet "money is everything" by paying others to do their homework or to let them copy test answers. This, too, virtually increases money dependence and desire.

The fourth negative influence is lack of sense of responsibility and mission. A bright future lies before these children. If you ask what they will do when they grow up, many will tell you that their parents are preparing to send them abroad, that the money for this has already been accumulated, and that the bank deposits their parents have made for them are sufficient for life. Indeed, some will even tell you that they will succeed their fathers.

In sum, IE children believe their school performance is unimportant and that their parents have already prepared a "future" for them. All they think about at their young age is how to eat, dress, and play to the hilt and to

enjoy to their hearts' content everything that their parents have produced through industry and sweat. With no need for effort on their part, how could these kids possibly have a sense of responsibility and mission? [passage omitted]

Youngsters' growth is influenced by family, school, community, and the like. Logically, these influences should coincide, yet, for various reasons, such is not the case for IE children.

First, family forms youngsters' earliest classroom and parents, the first teachers. However, as IE families move from the closed configuration of tradition to a more open orientation and as parents undertake responsibility contracting and trading, many parents find they lack time to mind their children, and their sense of responsibility and obligation to their families weakens. Long lacking parental solicitude, IE children feel disappointment and loneliness, often resulting in attitudinal abnormality. Failing to receive love and affection at home, these kids try to compensate by trading money for friendship.

Some families attend only to the material wants of their children, supplying whatever is demanded, but rarely concern themselves with their kids' psychological condition and fail to achieve understanding and communication therewith. While some parents are very concerned about their children's intellectual development, they rarely are attentive to behavioral education, hoping merely that their kids become learned and skilled, overlooking the fact that youngsters must first learn how to behave. In everything, parents blindly want their children to advance to higher middle school and to pass college entrance exams but fail aggressively to guide their offspring into pursuing a life of values.

Second, school is the battlefield where youngsters mature, but shortcomings have occurred in some of school in recent years. Some have made intellectual development their priority and focused on graduation, excellence, and passing rates. Under this approach, schools fail to stress education in other areas. Guided by the baton of "graduation rates," teachers excessively emphasize grade competition among students and, when confronted with children whose performance is poor or who even dislike or want to drop out, are, when energy flags, so prone to dismiss such children as "unmanageable" or "not worth the effort" that some kids fail to receive the education and improvement they deserve.

Third, social influence is much more complicated than schooling effect, and many teachers feel that social negatives often offset educational positives.

We now practice market economy and have introduced the profit and competitive mechanisms into social life yet have not had the time to erect new barriers to rapacity and greed. Teachers cannot cloister students off in the school yard, the walls of which in fact have already crumbled, exposing classroom windows on all sides to elemental attack. In an open society, children are

exposed to corrupt practice, abnormal interpersonal relations, and irrationality, which exposure doubtless corrodes. Therefore, all quarters have called for the reestablishment of a social atmosphere conducive to the healthy behavioral development of children. [passage omitted]

#### **Entrepreneurs Overlook Importance of Moral Education**

94CM0378B Beijing LIAOWANG [OUTLOOK] in Chinese No 29, 18 Jul 94 p 9

[Article by Li Jian (2621 0313): "This, Too, Is Part of Project Hope"]

[Excerpt] As almost everyone knows, Project Hope entails extending a friendly hand to help children who cannot afford to study due to economic difficulty.

This project is stressed by all quarters and supported by ever more people. Group after group of dropouts have returned to their happy school yards, and family after family has replaced worry with happiness. This project is vast, its mission formidable, and it requires unremitting effort so that 800 million people can be supplied with sufficient clothing and food by the end of this century. Still, awareness of the project has struck root in many people's minds, and the project has achieved progress.

There is, however, another problem that has failed to attract sufficient attention, namely, the rich who do not study—the substantial number of children who quit school to get a jump on entering business.

According to authoritative survey data, in Baigou, a strategically important town in North China, many people are rolling in dough, yet the washout rate there is as high as 32.9 percent, and no one has applied for the entrance exam to the town's only middle school for four straight years. This perverted prosperity has been dubbed "Baigou phenomenon" but is not unique to that town. Worth pondering is the fact that child labor is commonest where the dropout rate is highest.

"Why do you need to study so much? Keeping books is all you need to know." "If you could make money studying, who would bother with business?" "Nowadays, assembling a little money is better than anything. More knowledge does not compare to spending more money!" "Ai. So be it if kids don't want to go to school. What good does it do even to get into college. The more one studies, the poorer one probably gets, rendering the road of professors selling meat pies inevitable!"

Just chat with dropout parents and one is sure to hear commentary like the above.

This probably is the crucial factor behind the "rich dropout" syndrome. While these statements do not compare to "the more knowledgeable, the more reactionary one is," they do, at bottom, smack of "knowledge makes one poorer." In these people's minds, at least,

knowledge and money do not correlate but rather contradict. Indeed, there is no harm even in being illiterate so long as one can make money and turn a profit. [passage omitted]

#### **Crimes of Embezzlement, Bribery in Shanghai**

Shanghai ZHENGZHI YU FALU [POLITICAL SCIENCE AND LAW] in Chinese No 70, 5 Jun 94 pp 4-11

[Article by the joint investigation team set up by the Research Bureau, Shanghai Municipal People's Procuratorate, and by the Criminal Law Branch at the Legal Research Institute, the Shanghai Academy of Social Sciences: "Corruption and Bribery in Shanghai and Punishments Imposed To Counteract These Crimes"]

[Excerpt] Present Basic Situation of the Economic Crimes of Corruption and Bribery in Shanghai

To ensure the healthy and orderly development of market economy, it has always been the opinion of all procuratorates of Shanghai Municipality that suppression of corruption and bribery are primary parts of their tasks. From January to November of last year, 3,691 cases, brought to attention by the general public, were dealt with, a comparative increase of 11.7 percent. These cases led to the prosecution of 1,062 cases of corruption and bribery, of which 832 had been big and important cases, accounting for 78.3 percent, and 213 especially big cases, which had shown an increase of 2.2 times over 1992. A total of 184 million yuan had been involved in these criminal cases, and 62.68 million yuan of illegally acquired money and property had been recovered, while a further 64.26 million yuan of other economic losses could also be made good.

Investigations have shown that the present economic crimes of corruption and bribery not only showed a tendency of spreading and increasing, but that these cases had taken on the following new and peculiar characteristics:

##### **1. Conspicuous Occurrence of Such Crimes in Sectors of Heightened Economic Activity and in Party and Government Organs**

First, in the financial sector, which includes banks, securities trading, foreign exchange readjustment, and the insurance industries. From January to November last year, 173 cases of corruption, bribery, and embezzlement of public funds have been detected in these sectors and punished. The crimes had mostly been committed by misusing the powers of handling, having custody of, and administering funds. For instance, bank personnel took advantage of financial credit facilities to take out loans for personal use, or to solicit or accept bribes; embezzled treasury funds for commercial activities; falsified or forged documents, writing spurious vouchers to fraudulently obtain public funds, to pilfer and spend savings deposits, and directly robbed the treasury. Personnel in the securities trading sector would

take advantage of the facilities of their positions to misuse funds of their own establishments or to misappropriate the funds of investors to speculate in shares and make high profits. Last year 33 such cases were detected and punished, cases that involved 57.2 million yuan, while in 1992 only two such cases had been brought to trial. Personnel working in the foreign exchange market would take advantage of times when there was a shortage of foreign exchange to engage in such tricks as "in-pit transactions with ex-pit gains of differentials," and in this way commit corruption and bribery. Last year a total of 54 such cases, involving a total amount of 11.2 million yuan, were detected and punished, while no cases at all had occurred during the preceding two years. Personnel working in the insurance industry would take advantage of their authority to approve compensations and would then, in collusion with policy holders, falsely certify the risk involved and the amount of losses incurred, have the policy holder fraudulently obtain insurance money, while they themselves, as middlemen, would illegally share in the fraud or accept a bribe. Although all these types of crimes are only now cropping up, they reveal the existence of many loopholes in these sectors and the gravity of the problem.

Second, in the real estate market. The Shanghai real estate market is now very much in the ascent; as many as 1,589 real estate companies have already been set up. Due to the fact that appropriate laws and regulations are still insufficient, that no unified administrative organization, such as the securities control commission, has as yet been set up, that no internal system of supervision and restraint exists, and, in addition, that there is here the powerful enticement of huge profits, some criminal elements have rushed in here and made this a sector of many crimes. Since last year, 41 cases of corruption and bribery were detected and punished in only somewhat over 30 companies, cases that involved a total of 5.22 million yuan.

Third, the increase in economic crimes in party and government organs (including judicial organs and administrative law-enforcement organs). Due to the large power concentrated in this sector, a sector which, furthermore, is gradually expanding, crimes of corruption and bribery are also, as a consequence, expanding in this sector. From January to November last year, 130 cases of this kind have been detected and punished.

Fourth, the foreign-invested enterprises and industrial units. This type of economic organizations is presently developing extremely rapidly and spreading throughout all markets. Over 6,000 firms have effected industrial and commercial registration, but due to the fact that developments have not been matched by an appropriate operational and managerial system, and that personnel is of a rather poor quality, criminality in this line of trade is very conspicuous.

Fifth, in the commercial system. In the wake of the developing market economy, there is a constant increase

of factories and retail shops marketing in linked operations and of leased-counter [zu gui] operations. This has a positive effect in that it enlivens the market, speeds up circulation, and promotes economic development. However, due to the fact that managerial skills were not developing correspondingly, and that no new restraining mechanisms had been formed, this had some store managers and department heads in positions of authority become a major target for people intent on bribery. They would then misuse the powers of office to enrich themselves, to use "sales counters" [gui] to enrich themselves, to wantonly engage in bribery, and furthermore have these activities gradually develop quite openly.

2. Evident increase in big and important cases, as well as in extremely big cases; crimes involving ever larger amounts of money. At present, some criminal elements are completely blinded by greed and becoming ever more reckless. Their crimes involve huge amounts of money, and the occurrence of big and important cases is becoming more conspicuous by the day. The severity of the situation is as never experienced before. From January to November of last year, procuratorates throughout the entire municipality have handled a total of 832 big and important cases of corruption and bribery, where the amounts of each of the cases involved more than 10,000 yuan, where public funds of more than 50,000 yuan has been embezzled, and where the crimes had been committed by cadres of section chief and higher ranks. These cases made up 78.3 percent of the total 1,062 cases filed throughout the municipality, an increase of 281 cases compared with the corresponding period of 1992. The number of exceptionally big cases was 213, a 2.2 times increase over the figure for the corresponding period of 1992. It is particularly because personnel in the banking business and real estate market directly control and handle huge amounts of money, also work in areas where large profits can easily be made, that criminals in these lines are particularly greedy and reckless. The average criminal misappropriation of funds in the securities market involved 1.73 million yuan. There have been two cases of misappropriation of over 10 million yuan for the purpose of speculating in shares, the largest case involved 18 million yuan. The average crime of corruption and bribery in the foreign exchange readjustment market involved 200,000 yuan, in the real estate market 120,000 yuan, with a maximum of 2.17 million yuan in one case.

3. Increased complexity of economic components, greater disparity of crime subjects. With the further deepening of reform and opening up, China's economy has become more complex in its various components and more diversified, and as a consequence has also brought about a change in the subjects of economic crimes. Main manifestations of such are:

First, gradual increase in economic crimes committed by legal persons. Some state organs, enterprises and industrial units, collective economic organizations, and societal groupings, merely pursuing their personal partial

interests, will either in the name of their units, extort or take over the property of others, or use—within market economy—such unfair competitive practices as bribery, or they will embezzle state funds or production funds of enterprises, for illegal speculations in shares, foreign exchange, or real estate. Legal persons not only have greater facility to commit crimes, a higher rate of success, and involve larger amounts, the harm they inflict on the economic order of society is also very much larger.

Second, increase in economic crimes by unlawful foreign merchants, or merchants from Hong Kong, Macao, and Taiwan, taking advantage of the opportunity offered by China's opening up to the outside world. To rake in large amounts of illegal profits, they will frequently try to buy or bribe relevant personnel by offering money, property, goods, or other benefits.

Third, gradual increase in cases of misappropriating or diverting assets of enterprises of the mixed-type ownership system.

All these cases have brought about a change in the subjects of economic crimes.

4. Increase in collective crimes. From January to November of last year, 89 crimes of this type have been detected and punished. In these cases, detection of one case will frequently lead to the detection of a whole string of related crimes. For instance, when the procuratorate was handling a big case of collective corruption involving over 1.2 million yuan, exposure of problems and clues in this particular case led step by step to the detection and prosecution of 20 more cases.

5. Increase of criminal economic activities of corruption and bribery involve several provinces, several territories, and even extending beyond China's borders. From January to November of last year, in 136 cases of this nature, criminal activities had extended to other provinces and municipalities, and in 12 cases they had extended to beyond China's borders.

6. Cases of criminal elements absconding with their ill-gotten money have become more conspicuous. Some criminal elements take advantage of the present social condition with its large-scale circulation of people, assets, and materials under the conditions of market economy and the prevailing lax and negligent controls, and will have frequently well-prepared their escape, with their loot, already at the time of committing the crime. After having been successful in committing the crime, they will then abscond with the loot at the slightest sign of trouble. Some will escape to beyond China's borders where they frequently cannot be apprehended. From January to November of last year, 15 persons have absconded with loot of over 100,000 yuan in each case, and six persons with loot of over 1 million yuan in each case.

### Policy and Legal Problems Encountered in Law Enforcement

With the gradual institution of market economy, the pattern of economic behavior has greatly changed, but most of China's criminal law was formulated under the economic system which had a planned economy in a dominant position, merely supplemented by market economy, and is therefore no more adequate for the needs of the struggle against corruption under the conditions of market economy. As a consequence, much socially harmful behavior is not identifiable as such, and can also not be prosecuted.

#### 1. Difficulties of dealing with infringements on non-public property

Due to the deepening of reform and opening up, Shanghai's economic structure has assumed a pattern in which development is simultaneous for the dominant public ownership system as well as for other, pluralistic economic components. The entire municipality has presently over 6,000 foreign-invested enterprises (289 of these are fully foreign-funded enterprises), and another 1,100 enterprises on the shareholding system. Following the institution and development of market economy, enterprises with diverse ownership systems will further increase. However, the scope of protection afforded by the current criminal law is no longer adequate to protect pluralistic economic entities that now require protection under the conditions of market economy. Conspicuous manifestation in this respect is the problem that arises as to how to determine the nature and how to deal with the actions of managers of many private enterprises and of fully foreign-funded enterprises who take advantage of their official positions to misappropriate or divert the assets of these types of enterprises. Because the status of the victim and of the subject of such violations does not conform to what would constitute the crimes of corruption and embezzlement of public funds, and since the characteristics of the actions are also different from those of theft or fraud, it is difficult to investigate in such cases into any criminal responsibility. For instance, last year the procuratorate of Xuhui Ward received four reports of infringement on property belonging to fully foreign-funded enterprises, but had been unable in all these cases to prosecute.

#### 2. It is not possible to prosecute enterprise executives who by their actions waste or do harm to public property.

With the deepening reform of the enterprise management mechanism, the autonomy of enterprises in their business operations and management has been continuously broadened, and as the rights over the enterprise assets is held by a small number of persons, it has often occurred that these business operations have lacked a supervisory and restraining mechanism. For instance, in many places some plant directors (managers) will render their support, contribute money, issue invitations, and present gifts; some will loan or borrow on a large scale or

transfer funds without proper authorization; some will wantonly waste public property; for instance, one enterprise had incurred a loss of 500,000 yuan, but the plant director nevertheless used a credit card and, together with a whole group of people, squandered over 10,000 yuan on eating, drinking, and merry-making. Even though actions like these cause serious loss to public property, directly harm the interests of the state, the collectives, and the enterprises, and in worst cases give rise to various social problems, there is frequently no justification for a criminal investigation because no individual person has been the direct recipient of cash or property.

3. It is not possible to prosecute and punish the actions of units that misappropriate public funds.

At present, some units, merely for the benefit of a small group of people, misappropriate large amounts of public funds, which they give to other units or individuals to use; or they misappropriate public funds to speculate in shares, real estate, or foreign exchange, whereby they directly do harm to and disturb the state's monetary order. However, in these cases, which seriously harm social economic order, it is still not possible to prosecute the persons in charge and the persons directly responsible.

4. It is not possible to prosecute actions whereby benefits of a nonmaterial nature are being obtained.

When investigating and dealing with cases of bribery, it is not possible to prosecute, according to current judicial practice, such acts as accepting overseas trips, favorable placement or transfer of children or relatives, insurance benefits, original issue stocks, or promotions and favorable transfers, because the current criminal law has no provisions covering such cases. Criminal elements will therefore not have to suffer legal sanctions for engaging in such acts.

5. It is not possible to prosecute unfair practices of competition when the objective is to gain legitimate benefits.

The "Law Against Unfair Competition" prescribes that no one engaged in business shall commit bribery by the use of items of value or by any other means to promote sales or purchases of commodities. Secretly granting off-the-books rebates shall be considered as bribery and shall be dealt with accordingly. The "Supplementary Regulations for the Suppression of Corruption and Bribery" makes "seeking to gain unlawful benefits" an important component of what constitutes bribery. Thus, now it is frequently impossible to prosecute widely prevalent acts of bribery that are committed in the course of economic activities because the person committing these acts is not attempting to gain any unlawful benefits.

6. It is impossible to prosecute cases where property of great value appears to be of doubtful origin or where deposits in foreign countries are concealed and remain unreported.

At present, the expenditure of some public servants is evidently inconsistent with their incomes, and it also happens that very large deposits abroad are left unreported, making it difficult to check and punish for relevant offenses. As to the reasons for this, it is not only the lack of judicial interpretations, but primarily that no system has been instituted so far to have public servants report their property, so as to round off the "Supplementary Regulations."

7. Malfesance in office gets intertwined with certain types of "acting as intermediary" and "rendering technical services," which makes it difficult to distinguish in such cases between what is already criminal and what is not yet criminal.

When an executive in the judicial area who possesses special technical skills uses his post to help another party, and then accepts cash or goods as a "service charge," a "commission," a nominal salary, or a bonus, it is frequently very difficult to distinguish this is a bribe or merely a remuneration for technical services rendered. Again, suppose both sides are executives in positions of great authority and managerial powers. If one introduces a pertinent person to the other, to allow the other party to contract or lease some projects, will there be a tacit understanding that the introducer will receive some money or goods? Even though the action of the introducer is linked with his official functions and the facilities of office, the person taking such action does not contract (lease) anything from his own sector and does not receive money or goods from out of the business operation intended. He merely receives a "middleman's fee" from the other party, who will do the contracting (leasing); it is therefore not possible to designate this as a case of taking advantage of the facilities of one's office.

#### **Prognosis of Future Corruption and Bribery Crimes in Shanghai Municipality**

In the spirit of the Third Plenary Session of the 14th CPC Central Committee, this year Shanghai will seize the opportunity, start out from the realities of the situation, set a lofty starting point, creatively promote various reform projects, and achieve a new breakthrough by taking the lead in establishing an effective operational mechanism for the socialist market economy. Under these new circumstances, working out an accurate analysis and projecting the future prospects with regard to the developmental tendency of corruption and bribery crimes, and equally with regard to the main factors that could obstruct strict law enforcement by the procuratorial organs, will be beneficial for a timely and appropriate formulation of a counteracting policy, also beneficial to gain the initiative, to further deepen the anti-corruption struggle, and to ensure the healthy development of the market economy.

#### **1. Continuing Upward Tendency of Corruption and Bribery Crimes**

A large number of various reform measures will be staged this year, and the reform will certainly be vigorously advanced. The economic crimes of corruption and

bribery, however, will also continue to spread and continue in their upward tendency, and among these crimes the proportion of big and important cases, as well as extremely large cases, will also continue to increase. The main arguments for this assumption are:

First, a large number of factors conducive to the commission of crimes are inherent in the process of instituting and improving the socialist market economy. Reform and opening up are to be pursued this year to even greater depth and on a broader scale, and this will entail many new economic activities and behavioral patterns. However, with regard to control over the actions of normal market subjects, the establishment of a legal system to maintain market order has not kept pace with developments, so that, unavoidably, certain loopholes and weak links exist in the management of the market economy, and that certain "borderline zones" and "vacuum zones" have come into existence, which will objectively provide criminal elements with opportunities to exploit.

Second, during the transitional period, much trading of power for money will still be going on, and, as a consequence, corruption and bribery crimes are bound to continue in an upward tendency. While market economy is being instituted and developed, there will still be state intervention, and the state will exercise supervision and guidance of the market economy mainly through such means as planning, taxation, credit, and control of foreign trade. Regulation and control of this kind will have an actual impact on the producers and traders of commodities. Improper administrative intervention, again, will quite naturally generate commercialization of power, and this again is the precondition for corruption and bribery. In sectors that possess macro-regulation and control powers, in economic sectors of a monopolistic nature, and in the judicial and administrative law enforcement sectors, in which power is fairly strongly concentrated, the decadent phenomenon of trading power for money will continue to exist, even to a substantial extent. In the wake of the deepening of the reform, there will be a gradual formation of an administrative system in which "society will figure large and government will figure small." While the process of transforming the functions of the government is going on, some people will get the idea that "unused power will become invalid after its time has run out, so why reap some profits now from the power that one still possesses." These people will then wait for an opportunity to trade power for money, thus causing a continued increase in these types of crimes.

Third, ideological instability in society during the transitional period is the ideological basis for the continuing upward trend of corruption and bribery. During the process of shifting toward the market economy system, it is, on the one hand, hard to avoid that there will be temporary and partial disjunction in economic relations and a widening of the income differential, and that this will have a destabilizing effect on the minds of some

people, which again, under certain conditions, will easily be the cause of corruption and bribery. On the other hand, the negative effects of market economy will also be an irritant to people's mental concepts, and an extremely small group will psychologically become so perverted as to adopt the attitude of money worship, harboring the depraved idea of "others are doing it, why not myself reaping some profits this way." This mental basis, which extremely easily leads to economic crimes, is now much more prevalent and more deeply embedded than ever before.

## 2. Increases of Corruption and Bribery in Certain Trades and Sectors

In party and government organs (including judicial organs and administrative law enforcement sectors) and in economic management sectors, corruption and bribery continue to show an upward tendency. Especially in sectors with direct regulatory and control functions in the market economy, and in sectors with government control functions, which possess actual examination and approval powers as well as control powers, trading of power for money is widespread and the commission of economic crimes also most conspicuous. Under the conditions of market economy, conditions and opportunities for trading power against money have increased for personnel of judicial organs and of the administrative law enforcement sectors, and this has also led to the increase in corruption and bribery in these sectors.

There will be a marked increase in corruption and bribery particularly in the most active areas of the economic sphere. Because these particularly active sectors in the economic sphere occupy an important position in the market economy, and because they also reap profits of substantial amounts, factors conducive to the commission of crimes will also increase.

In the financial system, corruption and bribery is still maintaining an upward tendency. First of all, from the macroeconomic viewpoint we see that this year's economic development is still like a large empty plate which requires the investment of large amounts of capital. Shanghai Municipality plans for a total investment of 60 to 80 billion yuan, and this is why any fund shortage constitutes a conspicuous problem. Under these conditions, opportunities will increase for personnel in charge of credits to misuse their powers of granting credits by soliciting and accepting bribes. Secondly, the banking system will this year be transformed, and banks will become enterprises with autonomy in their business operations. At the same time, the number of bank branches and bank personnel will be increased, and this, in turn, may possibly lead to an increase of factors conducive to corruption and bribery, because management and the institution of supervisory and restraining mechanisms has not kept pace with developments. In addition, there has been a decline in the overall quality of personnel. Thirdly, the securities market has developed very rapidly; there are now 447 securities trading

organizations, most of them from other provinces and municipalities. Business in this line has developed rapidly, but the managerial level is low, personnel is of rather poor quality, and conditions are complex. Some securities companies consider large speculators in stocks to be "capable persons" and employ them as departmental managers. Some even hire persons whom the official securities organs had considered unqualified for work in this line, or who have been discharged or retired. These sectors of the business world are now "unable to take care of outside-of-Shanghai business and unable to handle Shanghai business," a situation that easily invites or generates such economic crimes as corruption and embezzlement of funds.

In the real estate market, the criminal activities of corruption and bribery will possibly continue to increase. This year, in the great occurrence of the accelerated establishment of the market economy system, real estate trade will of necessity also experience rapid development. There are presently already 1,589 registered real estate companies in Shanghai, and 400 of these are foreign companies. This year, they are all looking forward to a year of development, and this will require the investment of large funds. The problem of the prevailing fund shortage will therefore become even more acute. In their desperation some real estate firms will possibly risk great hazards to get their hands on some cash. We may also add that some real estate companies have no sound system of rules and regulations, and their management is beset with many flaw, which are facts that can provide opportunity for the commission of corruption and bribery. In this year's capital construction and trading in commodity housing, and at this time when all-round housing reform and new construction projects are being promoted, during the necessary processes of evaluating, assessing, and computing prices and areas on relocating houses, corruption and bribery will possibly increase and show no signs of decline. Besides, during the last two years, many a corruption and bribery crime lay concealed since the negotiations for land leases in batches, but with the passage of time, some such crimes will become revealed, will be investigated, and will be cleared up. This too may add to the increasing number of corruption and bribery cases.

In such lines of trade that have the nature of economic monopolies, there is every possibility that cases of misusing the powers of office to solicit or accept bribes will increase. With the rapid economic development this year, the problems of shortages in energy resources, communication, transportation, and raw materials will become even more acute. Some units and individuals, having only their individual interests or the interests of their small group in mind, will even more often resort to bribery and other such means of unfair competition. The problem of bribery will therefore become even more serious particularly in these lines of trade of an economic monopolistic character.

All new types of trade and all newly established sectors will constitute new sources of additional economic crimes. Market economy provides new opportunities for economic development, as various new types of trade and new economic entities will come into being at this juncture, such as, for instance, markets for the various kinds of key elements of production, commercial and trade markets, intermediary organizations of the market economy, economic entities from outside the borders of Shanghai Municipality, etc. However, all these trades and sectors frequently lack the required legal provisions and effective managerial and supervisory mechanisms—add to it the low level of leadership and staff proficiency—so that all these conditions will easily provide an extended field and new opportunities for the new types of economic criminals to exploit.

In fully foreign-funded enterprises and private enterprises, criminality shows a tendency to increase. On the one hand, one indication is that infringement of privately owned and operated property will increase. Because of the backwardness of legislation, it is frequently impossible to prosecute such acts according to the provisions of the current criminal law. This, precisely, has some criminal elements exploit by every means some of the legal "blank spaces," and has them recklessly violate and misappropriate privately owned and operated property. On the other hand, another manifestation is that due to the fact that privately operated enterprises lack strict and effective managerial and supervisory mechanisms, these enterprises have become "hotbeds," and also "hideouts," for criminals intent on committing the economic crimes of corruption and bribery.

The development of Pudong has entered a year of great development, with a planned investment of 15 billion yuan, a very large scale of capital construction, and large inflows of funds. In the economic activities, which this entails, such as bidding, inviting tenders, construction of engineering projects, purchasing of construction materials, etc., there is the possibility that a small group of people who wield powers of approval, control, and management, will misuse their powers of office to engage in criminal activities, such as corruption and bribery.

### 3. Possible Increase in the Crime of Embezzling Public Funds

First of all, it will be impossible to solve within a short time the contradiction between the shortage of funds and the needs of the ongoing development, and this will frequently make it difficult to avoid the occurrence of cases of embezzlement of public funds. Second, with the large scale of capital construction, each unit will have persons in charge of engineering projects and in control of huge amount of money; it will be completely up to

them how to allocate tens of thousands, hundreds of thousands, and even millions of yuan. Due to the absence of a mechanism for the supervision of expenditures, much opportunity opens up here for the embezzlement of public funds. Third, some economic activity is inherently extant in market economy that can yield

high profits and that is of a somewhat speculative nature, and this too can lure some persons of weak character to embezzle public funds and to use the money for speculation for personal gain, seeking large profits. As the market economy goes into high gear, there may be an increase in the embezzlement of public funds.

### Sichuan Militia Unit Supports Public Security Effort

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[CHINESE MILITIA] in Chinese No 7, 9 Jul 94  
pp 16-17

[Article by Yang Qisong (2799 1142 2646), Li Jinyuan (2621 6855 0337), and Guo Zhongliang (6753 1813 0081) titled: "For the Sake of the Security of This Land"]

[Text] In Sichuan's Dayi County, all over the county 60,000 members of the people's militia participate in the comprehensive administering of public security, in order to create a peaceful and safe environment. After an inspection, responsible comrades of the Central Committee's Public Security Comprehensive Management Committee had nothing but praise, noting that "Dayi's people's militia is terrific! It is rendering meritorious service to the people." Sichuan Party Committee Deputy Secretary and Provincial Government Political and Legal Committee Secretary Song Baorui [1345 1405 3843] noted with excitement: "We certainly must raise the banner heralding the Dayi people's militia participation in public security administration!"

Dayi County is located on the western edge of the Chengdu plain, and is typically called "the hope of Sichuan." In the wake of reform and opening, this area has opened wide the door to develop its economy. However, due to the complex social environment and local geographic conditions, a chaotic situation has emerged with regard to public security.

At the time, Liu Zhongshu [0491 1813 1859], serving as the County Party Committee Secretary, and County Magistrate Liang Enyu [2733 1869 3768] called on the County Political and Legal Committee, and the County Public Security Bureau, demanding that public security departments control the trend towards illegal criminal activity throughout the county and reduce it to a minimum. However, the leadership of the County Political and Legal Committee and the County Public Security Bureau replied in distress: "the territory of the county is so large and we are understaffed, our policemen risk their lives but also find it difficult to shoulder this heavy task." County Magistrate Liang Enyu had an idea; people's militia forces are politically reliable, their personnel are widely distributed, they are tightly organized, they have a strong fighting capability, why not use this force to participate in maintaining public security? This idea of the county leadership received the endorsement and support of the County's People's Armed Forces Department.

Afterwards, several teams of leaders of the County Party Committee assembled, and worked continuously for seven days to come up with a plan, and one "Four, Four process plan" stressing "the four participatings," and establishing a "four participatings system" was produced, and was very quickly put into effect in a comprehensive way. It includes:

- participation in command, the establishment of a four level prevention and administration leadership organization. At the same time, work responsibilities were clarified, and a system of work was established.
- participation in organization, the perfection of a four tiered people's militia public security joint defense core force.
- participation in vigilance, forming a four channel prevention and control network. In accordance with the principles of graded management, and regional administration, adopt a top to bottom, inside outside integrated approach, to form a solid, all encompassing, horizontally and vertically integrated, county wide coverage prevention and control network.
- participation in activity, shouldering the four prevention and control missions. First, there is patrolling duty, and maintaining public order. It includes organizing militia public order joint defense forces to do shuttle back and forth type patrol duty, set up a network of security posts, calm people, frighten criminals, and when there is an incident, provide immediate handling. Second, there is coordination with public security organs in the investigation and breaking of cases. Third, assist political and legal departments in making known the legal system. Fourth, taking the lead in respecting and upholding the law. Starting with the family, and up to those publicizing the law, all should be people taking the lead in respecting the law.

In the wake of the implementation of the people's militia's "Four, Four process plan," throughout the county the first steps have been taken in the formation of a solid public security joint defense system which is supported by political, legal and public security departments, and whose backbone is the people's militia.

The Dayi people's militia, in striving to participate in an integrated public security system, are everywhere displaying an indomitable spirit of bravery and skill in battle, and ferociousness when it comes to enemies. They fight bravely in various corners of the society, and wherever there are criminals, there will be the brave and heroic people's militia.

On November 23, 1993 at 2:30 in the afternoon, the Anren village police station received a masses report, stating that the village sausage processing factory director had dismissed a contract worker because he had on a number of occasions violated labor discipline. This control worker was extremely dissatisfied, and was carrying a gun and assembling a group of youths ignorant of the facts to find and retaliate against the factory director. Special weapons cadre Zheng Xunze [6774 1789 3419] led the people's militia and headed straight for the factory. At this point within the factories the doors and windows and the equipment were all in disorder, and the ruffians had already slipped out of the factory driving a car. Zheng quickly directed the people's militia to divide

into two groups and take two roads in pursuit, and within a half hour, several of the vicious ruffians had been seized, to be punished in accordance with the law.

This year on 2 January at approximately 9:00 in the morning, Aner town Xianglin village, on-duty people's militia company commander Wang Youquan [3769 0645 0356] discovered that on the outskirts of the village on the sides of a tractor path there were three peddlers hawking electric fans to passersby. The peddlers were acting strangely, arousing the suspicions of Wang: "Its so cold today, why are these people selling electric fans?" He hastily moved forward and questioned them, but the peddlers tittered and laughed, and did not answer. Wang concluded that this was a gang of thieves. Soon afterwards, he led public security joint defense force personnel and police station comrades who rushed to the spot, but the three peddlers, exposed, suddenly dropped their wares and fled in disorder. Wang sized one of the men, recovering stolen property such as the electric fans, and bicycles, and tracked the rest down by following clues, uncovering three major robbery cases, and breaking the case of a criminal network.

According to statistics, over the course of more than five years time, in the county as a whole the people's militia have participated in integrated control of public order by sending forces amounting to more than 61,000 person times, including more than 2400 occasions of coordination of public security cadre and people's police in the arrest of criminal elements, the breaking of 375 criminal cases, the handling of 716 public order cases, the recovery of various types of stolen goods, and the recovery of illicit funds valued at more than 12 million yuan.

In order to ensure things are safe and well, the people's militia not only coordinates with public security departments in resolutely attacking various types of criminal activity, but also rescues those criminal personnel violating the law, taking them down the proper path, by educating one person, it stabilizes a large areas. For this reason, in guiding the people's militia "participation in control," they have organized more than 900 people's militia educational assistance groups, and when their reform through labor, and they form educational assistance pairs for released personnel, when their education through labor terms are complete, and educate and assist them in reforming the bad and returning to correct ways.

Chujiang villager Wang Shiyun [3076 0013 0061, released after completing his sentence, upon returning to his family village from prison was given the cold

shoulder by neighbors, relatives, and friends. When he was released he did not own a thing in the world, and had nowhere to turn, making his just-recovered heart again turn cold. On many occasions he slipped into public houses and used alcohol to make his worries go away, drinking until he was very drunk, thinking that in this manner he could bring to an end his life. A village people's armed forces comrade proposed that cooking oil, fruit and articles for daily use be brought to Wang Shiyun's small and lowly dwelling, and he had a heart-to-heart talk with Wang late into the night. Sincere and deeply caring, in the end he touched Wang's icy heart. Not long after, with the support of the people's armed forces bureau, Wang Shiyun contracted with the village brick factory that was on the verge of closing down. Because he improved management and was able to administrate, the factory, in two years, made up deficits and increased surpluses, becoming a profitable operation in the village. Over the past two years, he has contributed more than 30,000 yuan to support running of schools and the repairing of roads. In the factory, he has also arranged employment for dozens of veterans and people released after "two labor" [reform through labor/education through labor] sentences, and reduced the government's worries.

In this manner, large numbers of people's militia cherish a heart seeking calmness, and seeking a stable absolute sincerity, and have assisted relevant departments in educating and transforming more than 990 former criminals into new workers who observe discipline and respect the law, and educated and transformed more than 120 young people guilty of misdeeds into advanced individuals, while mediating in more than 1760 civil disputes, and blocking the occurrence of more than 20 pernicious events.

On a table showing the Dayi county political and legal committee and county public security bureau criminal cases, the following data was recorded: between 1988 and 1993, in the county as a whole there was a five year downward trend in the rate of occurrence of criminal cases. From January to April of 1994, there were no cases in the county.

In the face of this type of gratifying public security situation, from the county party committee secretary, and the county magistrate to the leaders of towns and villages, from the political and legal, and public security departments to the entire body of citizens, without exception there is praise for the might of the people's militia, and without exception praise for their merits and achievements.

### New Presbyterian Church Political Movement Launched

94CM0349C Taipei HSIN HSIN WEN (THE JOURNALIST) in Chinese No 377, 4 Jun 94 pp 80-81

[Article by Li Wen-pang (2621 2429 6721): "Taiwan's Presbyterians Launch the 'Taiwan 100 Years' Movement"]

[Excerpts] [passage omitted] Taiwan's Presbyterian Church, in view of the fact that next year Taiwan will complete 100 years under the rule of an external power, have persisted in a concern for Taiwan and advocated the establishment of a Presbyterian Church of a "new and independent country" and decided in the last half of this year to put forth an all out effort to make arrangements for a "Taiwan 100 Years" warm-up movement, using it to arouse the self-initiative consciousness of the Taiwan people. [passage omitted]

The "Taiwan 100 Years" Movement to liberate Taiwan was first proposed by such people as Taiwan University professor Li Hung-hsi [2621 7703 4406] and Academia Sinica researcher Chang Yen-hsien [1728 3508 2009]. Li Hung-hsi and others, in addition to writing the Taiwan 100 Years series, reprinted proof of Taiwan's one hundred year lot from Taiwan's history, laws, and religion, respectively. So, they advocated that "tragedy should be a thing of the past and we should welcome a brand new Taiwan."

Pastor Lin Fang-chung [2651 5364 0112], head of the Presbyterian Taichung Central Conference "Church and Society Department," says that Lee Teng-hui wants the Taiwan people to "exodus." Actually, his intention is to have everyone escape from Greater China sentiments, because in the Bible it is recorded that the goal of the "exodus" was to establish a new country and in this newly created country they could let their children and grandchildren pass a happy and ideal life. They had their own laws, they had their own beliefs, they had their own language, and they had their own history and geography. And they had their own army and country. "So, Moses led the Israelites descended from Abraham who had entered Egypt after three or four generations back to Canaan, believing that God permitted them to establish their own land in Canaan."

Li Hung-hsi and Chang Yen-hsien believe that from the perspective of recent history, neither the 1951 San Francisco Convention nor the 1952 Japan-China Treaty record that Taiwan belongs to the Kuomintang's (KMT) so-called "Republic of China." And Mao Zedong, when he was contending with the KMT, strongly advocated Taiwan independence. In 1949 when the People's Republic of China was established, there was no Taiwan on the maps that they published. And before that when Mr. Sun Yatsen established the "Republic of China" in 1911, there was no Taiwan on the maps that they published either. From this it can be seen that up until

now Taiwan actually is just like a "country without a ruler," or we could say that Taiwan's inhabitants still have not decided what kind of a country they want to establish and what kind of name, flag, and constitutional government system they want to adopt. [passage omitted]

With Taiwan's enduring the rule of two fifty-year external regimes, the Presbyterian Church beginning from 7 June will launch a series of advance "total renewal of Taiwan" practices.

The specific plans and measures for this "total renewal of Taiwan" are: first, "renewing the national system," including pushing for popular election of the president, formulating a new constitution, establishing a new "blue, green, and yellow" flag, establishing a new country name, a totally independent judiciary, army, national police force, and a single national legislature, abolishing provinces and elevating counties, and proportionally increasing local finances and taxes. Second "renewing national diplomacy," including declaring independence, re-signing with the United Nations, applying for entry into the United Nations, and supporting "Taiwan-Chinese" relations of mutual benefit to the two countries.

In the "total renewal of Taiwan" plans and measures, the more than 220,000 Taiwan Presbyterians are prepared in succession to send out letters to international churches requesting that churches in all the countries friendly to us urge the country to support Taiwan and organize publicity groups to go to the churches in various countries. In addition, they will link up social movements, political party groups, Taiwan churches, the Alliance for an Independent Taiwan, the Taiwan Professors Association, and scholars and experts in the expectation that the public with this ideal compact, will lay a brand new foundation for this "new country" of Taiwan, and "allow this generation of Taiwan people to be Taiwan's forbears and establish a model for later people."

The Presbyterian Taichung Central Conference "Church and Society Department" in the next few days will fully link up with the standing committee of the church's social committee and seek the strong support of the conference chairman, Pastor Ch'en Sheng-san [7115 0524 0005] and chief executive, Pastor Yang Ch'i-shou [2799 0796 1108], anticipating using the abundant human resources of the Presbyterian Church. This "Taiwan 100 Years" activity will raise great agitation on Taiwan from the north, the center, the south, and the east.

From 18 to 20 July, the Presbyterian Church will conduct a large ethnic symposium. In addition to Pastor Lai Kuan-i [6351 6306 0001], who will preside, the speakers will include Li Ch'iao [2621 0829], representing the Hakkas; Cheng Erh-yu [6774 0334 3768], representing the elderly; Liao Chung-shan [1675 0022 1472], representing the Outside Independence Society of the people

from outside provinces; Wa Li-ssu [3907 2980 2448], representing the original inhabitants; and special functionary and representative of the Young Adults Organization, Cho Hsueh-te [0587 1331 1795].

**Taiwan Green Is the New National Anthem**

The present "Taiwan 100 Years" activity can be said to extend from 1977. At that time the Taiwan Presbyterian Church broke through the government's taboo and published the church's "human rights declaration" in the church bulletin and "urged the government to adopt

immediate and effective measures to impel Taiwan to become a new and independent country." The Presbyterians' "political advocacy" at that time caused the government authorities countless headaches. After that, the Formosa Incident occurred and many Presbyterians from the chief executive, Kao Chun-ming [7559 0193 2494] to pastors Chao Chen-erh [6392 2182 6310], Ts'ai Yu-chuan [5591 2589 0356], and Lin Hung-hsuan [2651 1738 1357] were arrested one by one. But this conviction of the Presbyterians remained from beginning to end. [passage omitted]

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